

Exelon Corp.*Company▲*

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Q4 2009 Earnings Call

Event Type▲

Jan. 22, 2010

*Date▲***MANAGEMENT DISCUSSION SECTION**

Operator: Good morning. My name is Crystelle and I will be your conference operator today. At this time I would like to welcome everyone to the Exelon Corporation Fourth Quarter 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.

I would now like to turn the call over to Ms. Karie Anderson, Vice President of Investor Relations. Please go ahead.

Karie Anderson, Vice President, Investor Relations

Thank you, Crystelle. Good morning. Welcome to Exelon's fourth quarter 2009 earnings review and conference call update. Thank you for joining us today. We issued our earnings release this morning. If you haven't received it, the release is available on the Exelon website at www.ExelonCorp.com.

Before we begin today's discussion, let me remind you that the earnings release and other matters we discuss in today's call contain forward-looking statements and estimates that are subject to various risks and uncertainty, as well as adjusted non-GAAP operating earnings. Please refer to today's 8-K or our other filings for discussions of factors that may cause results to differ from management's projections, forecasts and expectations, and for a reconciliation of operating to GAAP earnings.

Leading the call today are John Rowe, Exelon's Chairman and Chief Executive Officer, and Matthew 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 have scheduled 60 minutes for this call.

I will now turn the call over to John Rowe, Exelon's CEO.

John W. Rowe, Chairman and Chief Executive Officer

Thank you, Karie. Good morning, everyone, and happy New Year.

As you already saw in our news release, we reported operating earnings of \$0.92 per diluted share for the quarter and \$4.12 per diluted share for full year 2009. These earnings are well within our original guidance range of \$4.00 to \$4.30 per share, and they are above our revised 2009 earnings guidance range of \$4.00 to \$4.10 per share.

We believe the fourth quarter was a very good one. It reflected both a little better luck on the weather and even better results from our cost management effort than we had expected. We are very pleased with the end of 2009. We believe it bodes well for 2010, and we are very confident that we will be able to deliver earnings in 2010 that are well within the earnings range we have given you. We have a lot of time left in 2010 to keep working on both the revenue side and the cost side, and we will do so.

I know from the behavior of our stock this morning and from some of the calls you have already made to Karie and her IR group that some of you are concerned about implications for the first quarter and what the first quarter means for the whole year. Matt will try to take you through those details. The point I want to make is that we see the fourth quarter as nothing but good news for what we can do for you in 2010, and we are hard at work doing just that.

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Our 2009 performance reflects continued success in our Generation fleet. Our nuclear performance capacity factor for 2009 was 93.6% and our fossil availability factor was 93.7%.

Our hedging program in Exelon Generation held our average margins at \$38.20 per megawatt hour, essentially flat to 2008, despite spot power prices that were more than 40% lower year-over-year. Ken Cornew and his team deserve a great deal of credit for that.

We had best ever KD and safety performances at ComEd and best ever safety performance at PECO. We had continued strong financial results at PECO and very real improvement in our financial performance at ComEd. ComEd increased its earned ROE from 5.5% in 2008 to approximately 8.5% in '09, and is targeting and has real plans to achieve an ROE of at least 10% in 2010.

We delivered on our cost savings commitments across all of our operating companies. At the start of the year we committed to hold O&M flat at 4.5 billion from '08 to '09. Thanks to Chris's leadership, we realized an additional 200 million of O&M savings in the second half of 2009, driving down our O&M expense to 4.3 billion for the year. These savings reflect a company-wide focus on cost management and enabled us to absorb unfavorable weather conditions and higher pension and OPEB expense adding up to \$0.25 per share, and still deliver our \$4.12 of operating earnings.

We continued to find other ways to deliver in '09. We generated close to 5.8 billion of cash from operations, an increase of 1 billion over our original budget, largely due to tax planning opportunities provided by federal stimulus programs. We completed a corporate restructuring, including a reduction of close to 500 positions. We improved our long-term financial flexibility with a \$350 million discretionary pension contribution and \$1.5 billion of debt refinancing at favorable rates. And of course our total dividend to you totaled about \$1.4 billion in value.

We received license renewal for two of our nuclear units, Oyster Creek and TMI, extending the operating lives of those nuclear units by an additional 20 years. We launched a 1,300 to 1,500 megawatt nuclear uprate program, which represents the equivalent of a new nuclear unit at about half the cost. It is also lower risk than new build as it consists of close to 20 discrete projects, and the more expensive ones can be dropped if power prices don't justify them.

We brought online 70 megawatts of incremental nuclear capacity at Quad Cities, Dresden, and Peach Bottom. There is simply no better nuclear investment than the Exelon uprate program.

PECO was selected as one of only six utilities to receive the maximum federal stimulus award of \$200 million for its smart grid and smart meter programs. And we acted decisively to propose the permanent retirement of our Cromby Station and Eddystone Units 1 and 2. Our numbers say that these retirements will create somewhere between 165 million and 200 million of present value over continuing to operate these units, largely in the form of avoided capital expenditures but also O&M savings.

PJM's preliminary analysis has identified potential reliability impacts if all units were to retire on May 31, 2011. We are working with PJM as it continues to refine its analysis and expect to develop an acceptable plan for the retirement of all four units.

Now as you know from our financial conference in November, our earnings guidance range is 3.60 to \$4.00 per share. We are very confident based on the '09 results that we can be comfortably within that range. The fourth quarter makes us feel better, not worse about 2010. Our management team is committed to its O&M target of 4.35 billion, despite an increase in 2010 pension and OPEB expenses that Matt will detail for you. We have only begun to work on 2010 both on the cost side and on the revenue side.

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Before Matt goes to the financials, I want to revisit our long-term value proposition. It's driven by the factors shown on slide 3 of today's presentation. As you can see there, we are leveraging our core competencies including investments in nuclear uprates, smart grid and transmission. As you all know, our nuclear fleet gives us significant leverage as prices recover over time, either due to rising commodity prices in natural gas and coal, due to improving power market fundamentals which place a higher premium on capacity, to an improving economy and we will discuss what's going on in both Chicago and Philadelphia in this call, and to improving power margins.

On a purely open basis, the margin in Exelon Generation increased \$800 million for every \$5 per megawatt hour increase in both PJM West and NI Hub electricity prices. Our low emission nuclear fleet will benefit from increasingly stringent environmental standards. That is true whether a climate bill is passed or not because of EPA regulation of carbon, of SO₂, of NO_x, of mercury, of coal ash piles, and New Source Performance Standards.

While we all know that the climate bill on which I have worked so long is in serious trouble in the Senate as we speak, the President of United States remains committed to the bill. I have met with both – more than 20 members of the Senate. The work that Senator Graham is doing with Senators Kerry and Lieberman may still bring action on this bill. And whether or not it happens this spring, the simple fact will remain that the lowest cost way to deal with the climate problem is a cap and trade system. Again and again, by this name or some other name, the Congress is going to have to come back to the need to deal with climate problem in a cost-effective way.

But even if it doesn't, the EPA under the mandate of the United States Supreme Court and the commitments of Administrator Jackson has made it clear that it will act on carbon. And frankly in terms of the ultimate value of the Exelon nuclear fleet, the carbon factor really isn't much bigger than all of the other environmental factors that weigh upon the nation's large coal burning fleet.

As we look at the things we have done right and wrong in this company, among the things we are most proud of is making our nuclear fleet bigger and better, separating our Generation into a market-based company, and selling most of our fossil generations. It has given us an upside that no other utility possesses.

We are working very hard on all of these factors. Our actions on Cromby and Eddystone exemplify the real force of all of these market and environmental conditions on the nation's coal burning fleet. There is opportunity for Exelon. A low carbon, lower emission world is coming. It is coming in fits and starts but no one doubts that it is coming. Almost any of these fits and starts makes Exelon's fleet more valuable and we will keep doing the things that maximize our capability to take advantage of that.

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

Matthew F. Hilzinger, Senior Vice President and Chief Financial Officer

Thank you, John, and good morning, everyone. I'll start on slides 4 and 5 with an overview of my key messages for this morning and details on the fourth quarter and full year results. As John mentioned, Exelon delivered operating results of \$0.92 per share for the fourth quarter and \$4.12 per share for the full year 2009. We are very pleased to have achieved earnings above our revised range for the year, largely a result of digging deep to find cost savings across the business.

We realized O&M savings of about 200 million from 2008 to 2009, which helped us offset year-over-year changes in operating earnings from negative market conditions at Generation and unfavorable load and weather at our two utilities. And in the face of those headwinds, we also generated cash from operations in 2009 of close to 5.8 billion, boosted in part by benefits we realized from bonus depreciation on capital investments allowed under the federal stimulus act.

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While we don't expect those one-time benefits to cash to continue, we are projecting cash from operations in 2010 of \$4.25 billion.

Let me turn now to our individual operating company results and financial drivers, and then I will spend some more time on our pension and OPEB expense and discuss how our 2009 cost reduction effort has positioned us for continued cost containment in 2010. Exelon Generation's quarterly earnings drivers are shown on slide 6. We continued to have strong operational performance across the fleet and completed four refueling outages during the quarter.

You'll see that our refueling outage days for the quarter are higher than last year, which is a result of the refueling outage at Three Mile Island that we started in late October. We used the time when the plant was down for its plant refueling outage to replace its steam generators as part of our long-term capital plan. This additional work extended the length of the outage to 67 days during the fourth quarter of 2009.

We also saw higher nuclear fuel costs quarter-over-quarter and that trend will continue as our below market uranium hedges from several years ago are replaced with the contracts at levels more representative of our long-term expectations for market price of uranium of 40 to \$60 per pound.

Market conditions at Exelon Generation's portfolio remained challenging, but our average margins for 2009 held to levels we experienced in 2008. We are now hedged at over 90% in 2010 and we continue to execute our ratable hedging plan for 2011 and 2012. We've updated our hedging disclosures in the appendix of our presentation and have shown the highlights on slide 7.

Let me point out a few changes that you'll see compared to our disclosures in our last quarterly earnings call. First, we announced in early December that we have planned to retire Eddystone 1 and 2 and Cromby Station in May 2011. And our hedging disclosures reflect those units coming out of our expected Generation and gross margin results at that time.

Retiring the units yields approximately 165 to 200 million, a positive NPV versus continued operations, and incremental pre-tax operating earnings of approximately 40 million per year beginning in 2012. In the fourth quarter we took a \$56 million pre-tax charge related to the retirement of those units, which we have excluded from our operating earnings.

Second, we've continued to hedge our 2010, '11 and 2012 portfolio and you'll see that as a result, our gross margin distribution represented by the bars on the right side of slide 7 have compressed both on the upper and lower ends of the range.

Third, we have made a slight modification in our hedge disclosure for the South region. Our open gross margin now reflects the capacity revenues we receive from counterparties in various long-term capacity sales. Because this component had been previously included in our effective realized energy prices in the South region, this change does not have any impact on the calculation of hedged gross margin in our disclosures. We believe it provides for a more direct comparison of the energy sales in our effective realized energy price to the ERCOT spark spreads we provide in the reference prices.

On that note I'd like to take this opportunity to reiterate our hedging disclosures – present the effective realized energy price for each of the regions in which we operate. The effective realized energy price is not the average sales price. It represents the equivalent around-the-clock price that can be attributed to our physically hedged volumes and we can determine the value of our hedges, and it includes fossil fuel cost and the market cost to service our sale obligations.

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Our hedging disclosure allows you to calculate the mark-to-market of our energy hedges by using the effective realized energy price compared to the stated reference price. We have provided an example of how to calculate our hedged gross margin on page 37 in the appendix of today's slides.

Let me turn for a moment to Midwest power market prices. At EEI we presented our views on Midwest power markets and in particular our view that the NI Hub prices had upside over the September 30 forwards based on gas and coal prices at that time. As we expected, we've seen expansion in market implied heat rates, with NI Hub prices rising over the last several months despite declines in gas prices.

We have also seen a reduction in the NI Hub at-hub spread since the fall. The spread is now about \$6.50 per megawatt hour for 2011, which is much more in line with the price differentials implied by the most recent PJM financial transmission rights auction. So while we continue on our three-year ratable hedging strategy, our Power team incorporates its fundamental views on the market to identify opportunities to capture additional value through the specific products we execute.

Let me now turn to a discussion of our results at ComEd. We've shown you our key drivers for the quarter on slide 8. ComEd recognized continued O&M savings during the quarter which offset unfavorable weather and load to maintain quarter-over-quarter earnings of \$0.16 per share.

As you will see on slide 9, weather-normalized load declined 1.6% from the fourth quarter 2008 to the fourth quarter 2009 at ComEd, primarily driven by large C&I customer class. I'd like to note that in late 2008 the Northern Illinois economy had already been hit quite hard by the recession, so the year-over-year change for the fourth quarter is less severe than we've seen in past quarters. The manufacturing sector was hit particularly hard in 2009, specifically the durable manufacturing segment which saw usage down over 20% for the year.

Looking ahead to 2010, we expect load growth in the commercial and industrial segment of 1.5% for the year starting in the second quarter. Broadly speaking, when evaluating load for ComEd, we look at a number of leading indicators such as the gross metro product and factory orders, and see those indicators trending upward in mid 2010 although the pace of growth from here will be moderate.

On the residential side, we've essentially gotten to the bottom of the cycle, but we expect load to be essentially flat in 2010. The small amount of customer growth that we project on the residential side in 2010 will be offset by reductions in usage per customer as energy efficiency program participation expands. New home prices in Chicago area have been trending up and the pace of unemployment growth in the service territory as slowed, both of which give us reason to believe that the economy in Northern Illinois is slowly turning the corner.

On slide 10, we have shown you PECO's quarterly results and earnings drivers. PECO delivered quarterly earnings in line with last year, as reduced load and weather were offset by favorability and lower bad debt expense and higher gas distribution revenues. PECO's quarterly results also include scheduled increases in the CTC amortization expense as PECO prepares to transition to market rates at the end of 2010.

On slide 11 you can see that PECO's load declined by 1.3% from the fourth quarter 2008 to the fourth quarter 2009, primarily driven by declines in the commercial and industrial classes. While ComEd had already started to see significant declines in late 2008, Philadelphia lagged the recession, with the gross metro product dropping 3.6% in 2009 versus 2% growth in the GMP in 2008.

Similarly, the turnaround of PECO load will take a little longer than what we are seeing at ComEd. So we expect further declines across all customer classes in 2010, with an overall load decline of 1.5% in 2010. Our current estimates show load in the residential class beginning to grow slightly in

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the second half of 2010, but that growth will be more than offset by a 1.2% reduction in average use per residential customer for 2010 as a result of the energy efficiency programs instituted under Pennsylvania Act 129.

In the commercial and industrial segment, we expect further declines of 2.4% in 2010 before we see signs of a sustained recovery. In addition, we are watching some pending pharmaceutical mergers and healthcare reform, and the impact of those issues may have on regional trends in employment, housing and customer spending.

Before I turn to our outlook for 2010 I want to spend a moment on one of the key drivers of our operating O&M, which is pension and OPEB expense, which you can see on slide 12. We now have our year end valuation reflects a \$35 million increase in our 2010 pension and OPEB expense over 2009, largely driven by a drop in discount rates. You may recall that we measure the discount rate at December 31 of each year, and that rate is used in conjunction with other inputs to develop the following year's pension expense.

On the asset return side, the market rebound helped us achieve returns of 21% on the pension plan this year, which helps the longer-term funded status of the plans. While pension and OPEB expenses are largely influenced by interest rates and market returns and have a significant impact on our operating costs, we remain committed to offsetting these higher costs with savings elsewhere in the business as we achieved in 2009.

Slide 13 highlights the tremendous success that we've had in reducing costs across the business during 2009. We covered inflation pressures, we offset pension and OPEB expenses of \$170 million, and we took \$200 million of additional cost out of the business. Operating O&M for the year totaled 4.3 billion, which is 200 million better than our original plan and 100 million better than our revised forecast. The savings came from the elimination of 500 positions in the Business Services Company at ComEd, productivity improvements, stringent controls on supply spending, contracting and overtime costs.

We are committed to keeping up the cost control focus in 2010 and we are holding the line on our 2010 O&M target of 4.35 billion, despite additional pension and OPEB expenses again this year. This will require our constant focus and we'll need to find additional opportunities to improve productivity within the business to weather these challenging economic times and to deliver on our commitments to you.

To finish up, let me turn your attention to slide 14. For 2009 we are pleased to have once again delivered earnings that are well within our original guidance range, in a year when many others will struggle to do the same. For 2010 we are reaffirming our full year guidance of \$3.60 to \$4.00 per share, and anticipate first quarter results of \$0.85 to \$0.95 per share.

I want to add some color to our first quarter 2010 guidance range, as it is lower than consensus and last year. We forecast the shape of our quarterly earnings profile in 2010 to differ from the profile in 2009. For 2010 the slope of our earnings is expected to be weighted to the second half of the year, and we have a plan to deliver on those results. We will continue to give specific quarterly guidance one quarter at a time, and we've included more details on the assumptions behind our full year 2010 guidance on slide 25 in our materials.

We clearly see 2010 as another challenging year, but we are committed to offsetting higher pension cost with other savings, to protecting and realizing value to our hedging program, and to generating higher earned returns from our utilities.

I'll now turn the call back over to Karie.

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Crystelle, we are now ready to take questions.

QUESTION AND ANSWER SECTION

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

<Q – Jonathan Arnold>: Good morning.

<A – John Rowe>: Good morning, Jonathan.

<Q – Jonathan Arnold>: Had a quick question on the change in the way you disclose your South region hedging, and specifically taking the capacity payments on legacy contracts out of the hedge disclosures and into gross margin. What – can you give us any sense of what the tenor or the lifespan of those contracts is? It sounds like we won't kind of see them in the hedges anymore.

<A – John Rowe>: Ken Cornew?

<A – Kenneth Cornew>: Yeah, Jonathan, first of all, as you know, in the South, we do have long-term purchase power agreements out of combined cycle and peaking plants. And the tenor of those purchase power agreements, as you also may know, are very long, many of which go through this decade.

And in the past couple of years, we have worked to find opportunities to actually sell a similar kind of product that we purchase from those plants to other counterparties. So these contracts look like purchases that have a big capacity payment, and then we dispatch the generation essentially at the cost of producing the energy at the time.

So what we've done is sold like contracts with a capacity payment to a purchaser, and then give the rights to dispatch that energy to those purchasers under long-term agreement that add – we think add good value to our portfolio in the South.

That being said, those capacity payments, for what we had bought, were always in the open gross margin calculation. And for what we sell, we had, in the past, as Matt indicated, put them in the estimated – or in the effective realized energy price. We made the change to move the sales we make – the capacity element of the sales we make – also into the open gross margin to be, A, more consistent with the other regions, all of our capacity revenues are in estimated open gross margin. And also to allow you to really compare a shorter-term energy price in the South with our shorter-term hedging activity and make that comparison.

And that's essentially the change we made. As Matt said, no impact on the ultimate calculation of our estimated gross margins, but we think it's a better way to reflect our hedge disclosure given that we've entered into these kinds of long-term sales.

<Q – Jonathan Arnold>: Does the majority of the margin associated with those contracts have that kind of through-this-decade lifespan or is that more the -

<A – Kenneth Cornew>: Yes, Jonathan, yeah. And furthermore, the vast majority of the margin we get will be in the capacity payment itself, not in the energy component.

<Q – Jonathan Arnold>: And if I may ask one on a different topic of – on the cost savings. You talked about holding the line in 2010, and that that would involve finding new savings.

Is it possible to give us some color on how much you'll have to be going after new savings, and how much will be sustaining some of the 200 million saved in '09, as you look at the components of keeping the number to 4.35?

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<A – John Rowe>: Chris can amplify this, but I believe we have about \$100 million new budget challenge to keep our number down to that 4.35 billion, and that is because there are some things like the pension and OPEB that we have to cope with. It's not just sustaining the old one.

But Chris, would you like to amplify that?

<A – Christopher Crane>: No, that's right. It's around a \$100 million challenge remaining to hold the 4.35. And we're in the process of solidifying the plans to set the targets at the business unit levels that we would be able to trend over the year. We anticipate being able to do it. But it's going to be over 100 different spending accounts versus one or two.

<Q – Jonathan Arnold>: So that means you have to hold the line on the 200 and find another 100? Am I reading that right?

<A – Christopher Crane>: That's correct.

<Q – Jonathan Arnold>: Okay, thanks very much.

Operator: Your next question comes from the line of Hugh Wynne with Sanford Bernstein.

<Q – Hugh Wynne>: Good morning.

<A>: Good morning.

<Q – Hugh Wynne>: Had a question regarding an external development. Earlier this month, the New Jersey Department of Environmental Protection issued a draft water discharge permit for your Oyster Creek plant that would require the construction of a cooling tower at the site. You all have said that that would be uneconomic and cause you to close the unit if the requirement were maintained.

Now that's – if I got my numbers right – a 625 megawatt unit. It probably produces 5 million megawatt hours a year and contributes something like \$200 million annually to your gross margin. So its loss, I estimate, would be maybe a \$0.15 hit to earnings, something of that order of magnitude.

Can you bring us up to date on where that stands, and why you believe that it will not be necessary to put in cooling towers at the site?

<A – John Rowe>: Yes, Hugh, we'll be happy to do that. Bill Von Hoene is ready with that information.

<A – William Von Hoene, Jr. >: Thanks. Good morning, Hugh.

<Q – Hugh Wynne>: Morning.

<A – William Von Hoene, Jr. >: We do not believe that cooling towers are likely to be required, and that's based on a couple of factors.

It's an issue that has been considered on past occasions by the New Jersey DEP when they were reviewing the water-discharge permits for Oyster Creek. And in each instance that that occurred, they ultimately concluded that towers were not required. There's no legal or scientific basis, in our view, for the towers. The draft permit that was issued earlier contemplates a long process by its terms because of the complexity of the issue, where there will be ample discourse on this. And as I know you are also aware, Governor Christie has indicated he'll initiate a stakeholder process,

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separate and apart from the permit review process, to review all the impacts on the bay there on a holistic basis.

And as those various factors are – coalesce over a period of time, we think there are a variety of ways that this could go, including a withdrawal of the draft, a deferral of action by postponing the comment period. They conducted the hearings, but no formal action. But our view is ultimately that we do not believe it is likely that permits will be issued, which require the cooling towers.

The timetable for action on this would typically be about 12 months on the permit consideration, and the draft permit contemplates a seven-year compliance period with the ultimate permit requirements. We think that's probably going to be extended, even without regard to the Christie stakeholder process.

With regard to the earnings impact, Hugh, in the event that we were required to install cooling towers as a condition of continuing to operate Oyster Creek, at the expiration of that timetable I just talked about, obviously the impact depends on the number of years of continued operations, but we don't believe the impact would be significant.

It is our smallest nuclear unit with high cost structure relative to our more efficient two unit plants. We would be able to reduce capital and maintenance spend into shorter operating life. And we've performed a discounted cash flow analysis, comparing it at net present value of continued operations with cooling towers to a range of operating life without it. And we've concluded that we would be in a better condition financially to shut it down rather than to install the cooling towers.

<Q – Hugh Wynne>: Thanks, that's very thorough. What was the compliance period you said after the permit was issued?

<A – William Von Hoene, Jr.>: It's seven years after the finalization of the permit. Normally, it takes about a year to finalize the permit. In this case, the draft permit itself contemplates a much more complicated process.

So we think, all in all, if this ran its course, as I said, again, without the stakeholder process, you'd be looking at 2019 before the ultimate compliance would be required.

<Q – Hugh Wynne>: Okay. And just a quickie for Matt, I believe it's correct to say that your estimate of cash flow from operations for 2010 has been reduced slightly from what it was back in November at EEI. I think something like 225 million. Could you perhaps comment on that?

<A – Matthew Hilzinger>: Yeah, let me – I think at EEI, what we had shown was that we were going to, in 2010, have a starting cash balance of about 700 million, and then we were going to end the year with about \$75 million. We've revised that. You'll see that on slide – I think it's 16 in the deck – that we actually are starting the year with \$1 billion of cash.

So the \$300 million above what we had at EEI is made up of really two components. About \$200 million is just timing. Things that we expected to spend in December got pushed to January, and so it's just timing. There's about \$100 million that we had in lower CapEx spending related to kind of growth CapEx at the two utilities, and you'll see that kind of flows down to the bottom line in terms of the cash ending balance. But our expectations for cash and how we expect to use it aren't different at all from what we've explained at EEI and since then.

Does that help?

<Q – Hugh Wynne>: Great. Yes, thank you very much.

Operator: Your next question comes from the line of Dan Eggers with Credit Suisse.

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<Q – Daniel Eggers>: Good morning. Just on the O&M cuts, not to dwell on this too long, but if the demand outlook for 2010 is better than you guys expect, how does that O&M number look?

Is it one of these things, you can avoid the costs if things are slow, but as they pick up the costs will ratably return? And how much of the savings – the 200 extra in '09 and the next 100 in '10 – how much of that do you think is going to be permanent versus responsive to the market?

<A – John Rowe>: Chris?

<A – Christopher Crane>: The load returning or market prices returning won't have an effect on our planned O&M spend. So they're not connected.

They may have a potential effect on our capital spend, if we saw the requirements for new business to come back in. So that would be the connection on use of cash, but – and we would have to trend that over the year to compare the two.

The actual sustainable savings in 2010, we said, was about 50%. And that is because we took compensation actions in 2010 due to our lower earnings, where we reduced our incentive and froze salaries and actions like that throughout the period. So we've given, in the EEI deck, the guidance of what we think '11 will inflate off of '10, and that is baked into that number also.

<Q – Daniel Eggers>: So that number still holds even though you guys were ahead of plan as far as what overall O&M savings are?

<A – Christopher Crane>: Right.

<Q – Daniel Eggers>: Okay. And, John, I guess one other question. You said in your comments that you were going to – you were just getting started to work on cost savings and on ways to improve revenues in 2010. Make sure I heard you correctly, and if so, given the hedge positions, where you see opportunities to improve revenues this year?

<A – John Rowe>: Well, we continue to find things in both delivery companies where we're more efficient about catching lost revenues. We do have the open positions that you're all familiar with.

And somehow, it's been my experience that as the course of the year comes on, you keep finding something you can do, some deal you can make, some transaction on both the cost side and the revenue side, that don't add tens of millions, but add a penny at a time. That's kind of what management is all about, both here and at every other good company.

And so it's no particular magic. It's just that there's a big difference between making a plan, and going out and making it work. You all would find some good things to do. And I'm kind of optimistic that we haven't hit the bottom of the barrel on either side.

<Q – Daniel Eggers>: Okay, thank you.

Operator: Your next question comes from the line of Steve Fleishman with Bank of America.

<A – John Rowe>: Good morning, Steve.

<Q – Steven Fleishman>: Yeah, hi, John. Two questions, in the release, in kind of your last quote talked about evaluating and pursuing appropriate growth opportunities for the long term. Is that just kind of a reference to the nuclear uprates and things like that? Is it – just curious kind of what the – what was maybe meant by that?

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<A – John Rowe>: No, Steve, in this jungle we're hyenas. I mean we're constantly looking for something dead on the plains. I'm trying to be funny but people think we have this mad passion to do a major merger. And I would think we would have proven long since that we'd like to grow that way if we can do it in a way that makes some money.

We look at those things. We look at transmission investments. We look at our nuclear uprates. We look at how we can make money on investing in our regulated delivery systems. And there's no magic anywhere. It's all a matter of being very, very hard headed, very opportunistic, and constantly looking for something that will deliver additional value to you.

And I'm absolutely convinced that if we just maintain the financial discipline that allows us to walk away, even if it's a little embarrassing for me or little infuriating for Chris, who's still resentful, that as long as we have that discipline in chaotic times like we face, there are going to be some opportunities out there. And I don't know what they are. I'm not trying to hide some secret plan. It's just we are much oriented to looking for value where it comes. And that's true in analyzing our internal things like nuclear uprates and it's true in Ian [McLean]'s new Transmission Company.

<Q – Steven Fleishman>: Okay. One other...?

<A – John Rowe>: No magic, just hard headed.

<Q – Steven Fleishman>: Yeah. One other question, I think Matt mentioned energy efficiency impacts for residential for both ComEd and PECO kind of...

<A – John Rowe>: Right.

<Q – Steven Fleishman>: ...residential sales, flat to down. When both those utilities look at their peak demand forecast going forward now, given energy efficiency, what are they expecting for peak demand growth going forward? Is the energy efficiency already kind of embedded in there when they look at that or...?

<A – John Rowe>: Well, we've tried to embed it as best we can. I'm going to ask Denis O'Brien to tell you about PECO first and then Anne Pramaggiore to tell you about ComEd. They'll answer your question directly. They'll also tell you a little bit about what we're seeing from industrial customers. So Denis, will you take the first shot?

<A – Denis O'Brien>: Yeah, John. In terms of our energy efficiency programs, if you look at the profile that we're looking at for 2010, we're seeing overall a 1.5% decrease in load. When you look behind that at the residential piece of it, we see the year starting out slow and coming back somewhat in the second half of it. If you took energy efficiency out, we'd see load growth in residential probably somewhere just shy of 1%.

When we overlay our residential – or our energy efficiency programs, which primarily impact the residential market, that takes the load growth down to 1.3% negative growth. When we estimate peak, we generally keep it pretty close to what our energy forecast is. So if you think there's a negative 1.3% growth, our weather-corrected peak – if you had a weather-corrected peak, would probably follow that same thing. Interesting, our last peak was August of 2006. We have not had a peak year since then. And given these energy decreases, I'm not sure we would see a peak – a new peak this year.

<A – John Rowe>: Anne?

<A – Anne Pramaggiore>: Directly to answer the question, we're – our programs take about 0.5% out – spread out over all our classes but predominantly in residential for 2010. They ramp up to 2% in the 2013 timeframe. It is built into our load projections as they stand today. Our peak situation is

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similar to Denis's. We track it in much the same way. We're looking at a – roughly a flat peak for 2010. Our last peak was in 2006. So we're looking much the same as PECO.

I think in general on load projections, and John I think alluded to how we're looking at this, we have – obviously we use our forecasts in our model, for ComEd we're looking at about a 0.8% increase for 2010. But we try to get behind that a little bit because I think all the forecasts suggest that 2010 is a turning point or a transition year, so trying to get behind that a little bit. We've been doing a quarterly manual survey of our largest customers, somewhere between 80 and 100 customers, just to get a handle anecdotally on what's going on out there.

And I think what we're seeing is tracking fairly closely to what our models are suggesting. Our uptick for 2010 is based on movement in the C&I ranks, not in residential, very little in small C&I, predominantly large C&I. And our survey would suggest, if you look at rough numbers of the 85 large customers, half are looking at flat load, 40% are looking at an increase of what magnitude I think yet to be seen, but we are seeing a little bit of optimism. We've also talked to our trade associations out there and again a glimmer of optimism, but I think it's too early to tell.

In terms of sectors, I think we're seeing auto and transportation stabilizing a bit, seeing some new shifts come on, and I think steel and metal works similarly. There's some indication that we may see some increase in load for 2010. So those are the – just to give you sort of a label in at what we're looking at on the load.

<Q – Steven Fleishman>: Okay, thank you very much.

<A – John Rowe>: Thank you.

Operator: Your next question comes from the line of Michael Lapides with Goldman Sachs.

<Q – Michael Lapides>: Yeah, I actually have two questions. One, and this may be a Ken Cornew question, can you talk about kind of annually how much wind capacity you expect to come online that can dispatch into NI Hub? And what are the factors that could make that a bigger or smaller number when you look out over the next three to five years?

<A – Kenneth Cornew>: John, do you want to take that?

<A – John Rowe>: [inaudible] ...politics, but Ken will give you the answer.

<A – Kenneth Cornew>: Yeah, Michael, to the first question, at EEI we talked about by 2012 seeing an incremental 3,000 megawatts approximately of wind coming online. We still think that's about the right number. It stays ahead of the requirements when you add them up by state and seems to be what we're seeing in the near term happening. So that – from a near-term perspective, that's what we are looking at.

The factors that drive it – I think John probably jumped in there on one of them, but obviously the regulatory climate and associated rules by state, and if some federal elements come into play, they would be drivers of that obviously for more or less wind investment if they did come to pass. But really the economics are the key issue. You currently still have power prices and cost structures for development that are disjointed, and the wind developers are facing that challenge of trying to find ways to get their plants developed and for someone to take the economic risk of the plants in the marketplace.

So you really have what we see as a relatively slow development process right now getting to about 3,000 megawatts in the next three years. And what would change that would be much better economics, higher prices; obviously in the longer term, more robust transmission or more legislative or regulatory drivers that help the process. Is that what you were looking at?

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<Q – Michael Lapidès>: Yeah, that's fine. Thank you very much. A financial question, just looking at the balance sheet, there's a little bit over \$2 billion of goodwill still there. Can you talk about the timing – a) where that goodwill would – effectively where the most of it is allocated to; and b) the timing and the potential for a goodwill write-down, given just what's happened to asset valuations across the power sector?

<A – Matthew Hilzinger>: Michael, this is Matt Hilzinger. It's all sitting at ComEd. And we've had – historically had a few write-offs although it's probably been three years since we've had a write-off. We do take a look at it on a regular basis. We take a look at it and go through a very formal review every November. We did that this time and we passed the test substantially, meaning we passed by somewhere around \$700 million.

So it's – there's a fair amount of cushion and there's all sorts of factors that go into it which include kind of the valuation of the utilities, what discount rates are, what projected capital spends are going to be, and what expected returns are going to be. So we take a look at it all the time.

There's no way to really predict when there's going to be a write-off, but I would suspect with a recovering economy, that'll add value to the two utilities. And they continue – the two utilities continue to improve, and particularly ComEd continually is improving its return on its earned equity. And I think that'll add value and help in terms of our ability to pass the test. So we take a look at it all the time. It's hard to predict. But as you realize too, it's non-cash. It's just – won't have any impact in the balance sheet at all.

<Q – Michael Lapidès>: Understood. Last item, what are the kind of the returns on – given where forward prices are in the Midwest, what are the kind of returns on capital you expect from some of the nuclear uprates in that part of your effective area?

<A – John Rowe>: Chris?

<A – Christopher Crane>: We have a range, and I'm not sure if we publicize the range of the return on capital of those individual projects. I'm looking at Karie to see.

<A – Karie Anderson>: Uprates?

<A – Christopher Crane>: Yeah, the uprates.

<A – Karie Anderson>: Yeah, on the uprates in our EEI deck, by the three categories of projects, we've given you a range of returns and we'd be happy to walk anyone through those slides.

<A – Christopher Crane>: Okay.

<A – Matthew Hilzinger>: And, Michael, before we turn it over to the next individual, I just thought I might take a moment since I have everybody on the phone, and just describe a little bit about our first quarter earnings and what's happening there. Because I think that is a point of thought with everybody out in the street. We spend a lot of time in our planning process going through and evaluating what our quarterly earnings ought to be, and we tie it directly to the business operations.

And so when we did and put together our 2010 plan, we were very specific and deliberate in how we spread our earnings, and our guidance for the first quarter clearly reflects that. But when you look at last year's earnings, they were I would say unproportionally high in comparison to how we normally run the business. And 2009 had a – the first half was probably more front loaded than what we've traditionally seen in terms of our earning pattern here at Exelon. And so I think 2010 will be kind of a more traditional earnings pattern.

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And when we look at the first quarter this year compared to last year, one of the big things is we had fewer outages in 2008 than we expect to have in 2009, and that will impact both the revenue and the O&M line. And then some of the other key drivers that we've outlined at EEI and are in the slides today, we expected – we also expect to see in terms of kind of lower rev net fuel, higher depreciation, higher CPT, higher nuclear fuel, and these are all things that we know and we've calculated.

And so the earnings that we put out – the earnings guidance we put out is not new to us. I mean it's what we've been expecting since we put our plan together. And we're very, very confident in our ability to meet our earnings guidance for the year. And so the first quarter earnings guidance here should not be considered a red flag. We're very confident. It's what we expect and what we have planned on.

<A – John Rowe>: Karie?

Karie Anderson, Vice President, Investor Relations

Crystelle, we'll now go to closing remarks. John?

John W. Rowe, Chairman and Chief Executive Officer

Thank you, Karie, and thank you, everybody. For anybody who didn't get their questions in, Karie will be happy to get you the answer. I just want to say to end that we all know that 2009 has been a tough year and none of us know exactly where the economy is going in 2010. We all have access to the same professional opinions. I just want to provide a little context.

In the 26 years I've been doing this, I've now seen a lot of ups and a lot of downs. I can still remember in 2007 and early in 2008 when it looked like there was no limit to the amount of money you could make on unregulated generation. I can remember later in 2008 when it looked like the best thing to be would be to be a fully regulated integrated.

Well, the fact of the matter is commodity booms don't last forever, commodity busts don't last forever, and rate cases have their own challenges as you've seen in – for several very good companies in the last few months. What we can do during these cycles is manage the basics really, really well. We did that at Exelon during 2009, and I think we can do that again in 2010.

And as for long term value creation, as customer demand recovers, Exelon benefits. As natural gases rises and coal comes back, which in due course they will, Exelon will benefit. As reserve margins tighten and capacity prices rise, Exelon stands to benefit. As the world puts a premium in one way or another on being lower carbon, Exelon stands to benefit. As there's more intense PPP regulation of other companies, Exelon stands to benefit. A lot of companies benefit from one or two of these factors. I respectfully submit that only Exelon benefits from them all and we'll work like hell in the meantime. Thanks a lot.

Karie Anderson, Vice President, Investor Relations

Thank you. That concludes our call.

Operator: And this concludes today's conference call. You may now disconnect.

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