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Exelon Corp. *(EXC)*

Q4 2011 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Cassandra, and I will be your conference operator today. At this time, I would like to welcome everyone to the 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.

Thank you. And now I would like to turn the call over to Stacie Frank, VP of Investor Relations. You may begin.

Stacie Frank*Vice President-Investor Relations, Exelon Corp.*

Thank you, Cassandra and good morning. Welcome to Exelon's Fourth Quarter 2011 Earnings Conference Call. We issued our earnings release this morning. If you haven't received it, the release is available on the Exelon website. The earnings release and other matters we will discuss in 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 today, we will be discussing the proposed merger of Exelon and Constellation Energy Group, Inc. Today's discussion is not a substitute for the disclosures in the definitive joint proxy statement and prospectus that was mailed to shareholders on or about October 12, 2011. For important additional information

regarding the proposed merger, including the associated risks and uncertainties please refer to the earnings release and today's 8-K, as well as the definitive joint proxy statement.

Presenting on our call today are John Rowe, Exelon's Chairman and Chief Executive Officer; Matthew Hilzinger, Exelon's Senior Vice President and Chief Financial Officer; and Ken Cornew, Exelon's Senior Vice President and President of Exelon Power team. They are joined by Chris Crane, Exelon's Chief Operating Officer and other members of Exelon's senior management team who will be available to answer your questions.

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

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Good morning, everybody. It's always a shame to waste someone as talented as Stacie reading the Safe Harbor language, but lawyers keep saying she has to do it.

2011 was another fine year for Exelon. We had very strong financial and operating performance. We grew the company through acquisitions, which are working on both an earnings and cash flow basis. We made progress on a range of regulatory, legislative and market issues, and we are getting ever closer to consummating our merger with Constellation.

Our fourth quarter operating earnings were \$0.82 per share. While December was a little disappointing, due mostly to weather, our full-year 2011 operating earnings per share of \$4.16 were within our final guidance range, better than our 2010 results, and well above our original expectations for the year. Our leading drivers in 2011 were the strong performance of the generation fleet, led of course, by our ninth consecutive year of over 93% capacity factors in nuclear, but helped significantly by our Texas operations.

Tax benefits helped us a great deal. The impact of the Illinois Energy Infrastructure Modernization Act was positive as was our summer weather. The good news was partially offset by costly storms at both ComEd and PECO and lower than weather normalized load at PECO. ComEd had a terrible July storm-wise, which we soaked up successfully, and PECO had both a hurricane and a freak fall snow storm.

Matt will review the quarter-over-quarter and full year financial drivers in more details. As you know, we made a \$2.1 billion contribution to the pensions at the beginning of the year, which along with Doug Brown's fine work on asset allocation allowed us to end the year at 83% funded status, and remember this is with very low discount rates. The contribution gives us added cushion in our FFO to debt credit metrics and will help us see the company through the current trough in power prices.

We returned \$1.4 billion to our shareholders in dividends. We are keenly aware that to all of you, the dividend is an absolutely critical part of our value proposition. It's what makes it possible for you to hold on with us while we work our way through the gas and power price trough. Our cash flows and credit metrics support our dividend and capital programs, even as we accept a higher payout ratio. Chris Crane, who will answer most of the questions today about future performance, believes as I do in the continued importance to the dividend. Simply put, we get it. And he is as committed as I am to maintaining it.

As we have mentioned previously, given our pending merger with Constellation, we are not providing full year Exelon standalone guidance for 2012 on today's call. We will provide combined company guidance at an analyst day that we expect to hold after – in the spring after the merger closes.

Turning to our operating results, I simply have to recognize Chip Pardee, Mike Pacilio, Susan Landahl, and their team for Nuclear's fine year. Their capacity factor was 93.3% for 2011. As I said earlier, that is the ninth consecutive year they have beaten 93%. This is just a tremendous performance. They continue to renew their commitment, they continue to sharpen their edge. We are very, very proud of what our Nuclear folks are doing. Exelon continues to be a leader in U.S. nuclear operations as we must be.

Both ComEd and PECO faced significant storms in 2011. PECO's response to very large storms was absolutely the best I've ever seen and far better than most of the other Northeastern utilities, many of which got themselves in more than a little trouble. Despite its summer storms, ComEd's outage frequency statistics were the best on record, both delivery companies keep getting better. Our power fleet in Texas led by Chip Pardee and Sonny Garg, was very helpful to our earnings in both the first and the third quarters.

Beyond the merger with Constellation, which is of course, our major strategic endeavor, and I will cover a little later, we added significantly to our generation fleet in 2011. Our Exelon Wind business and the addition of the Wolf Hollow combined-cycle gas turbine in ERCOT added more than \$40 million in earnings in 2011. Exelon Nuclear added 138 megawatts of clean and profitable energy through our power uprate program in 2011.

In September, we added 230 megawatts of solar generation to our clean energy development pipeline with the acquisition of Antelope Valley Solar Ranch to be funded in part through a DOE loan guarantee and backed by long term power purchase agreements. The project will come online in phases this year and next enabling us to realize investment tax credits and recover our investment by 2013.

As we work on these renewable investments and related generation, we are being very careful to make certain we engage in investments that protect our credit ratings, and improve our near-term cash flows.

Separately, Exelon Generation made investments in several transmission projects. We are seeing reduced congestion as a result, around our Midwest nuclear plants as a result of these projects. They are a very good example of small things that have very positive leverage in terms of our value.

As you all know, 2011 was a very active year in the regulatory and legislative arena. PECO fully transitioned to market rates at the beginning of the year and continues to pursue its investment in smart meters. ComEd received a rate case order in May and worked on passage of its infrastructure legislation. The latter allows ComEd to implement a formula rate and will spur significant infrastructure investment in the electric grid, including over \$230 million in 2012.

Exelon, through Joe Dominguez, was a key player in the successful initiative to open the Ohio market to competition. FERC approved a formula rate filing for so-called RITE Line.

We are closely monitoring the NRC's response to the Fukushima event. So far, the NRC has taken a thoughtful and measured approach to responding to this and our Nuclear organization is actively engaged in applying the lessons learned.

EPA issued its final Air Toxics Rule in December, which will lead to the retirement of the older and more inefficient coal plants. The final rule is largely as we expected and provides flexibility in the timeline for those plants that will be working to comply. And from Exelon's point of view the key thing is that people shut down those plants they intend to shut down. We expect that the Toxics Rule will be implemented on time beginning in 2015.

Unfortunately, the D.C. Court of Appeals granted a stay on the Cross-State Air Pollution Rule, which was supposed to go into effect on January 1. Our lawyers have reviewed it, we believe the EPA was within its authority and the Court will ultimately uphold the rule in large part. But, although the stay is a setback, we believe that the Air Toxics Rule is the more important one in terms of driving plant retirements. We do not believe the stay will have a significant effect on the number of coal plant retirements to take place, and so far what we're seeing is consistent with our expectations. Ken Cornew will address that more lengthily.

Now, it's fitting given the gas markets that our operator today is named Cassandra, because there hasn't been a whole lot of good news in the gas markets lately. So, we have a cheerful fellow named Cornew to talk about it. It is no secret that power prices have declined since our last earnings call, and that natural gas prices are the key driver. Spot natural gas prices have fallen more than 15% since the beginning of the year, partly due to the continued news about shale gas development, but also very much due to the mild temperatures that we have seen so far this winter.

Energy prices have followed gas prices, even more closely than usual, and have reacted negatively to the stay of the Cross State Air Pollution Rule in late December. Thus, we have given back the gains we saw in July when the rule was finalized. The Power team continues to believe that the reaction to the gas prices and the stay is overdone, and we expect some near-term price recovery. Ken will talk about all of this in more detail in a few minutes, and will also address how we are responding to the situation.

Our merger with Constellation remains on track to close in the first quarter. We have received several more of the required approvals for the transaction, and particularly the all-important DOJ review, and we await final approvals by Maryland, PSC, the NRC, and FERC.

In Maryland, we were of course, extremely pleased to have settled with a number of major parties to the case, including the governor, very much including the governor, and we have now a schedule for a final order from the PSC on February 17. We have asked the FERC to issue their final ruling early this year and remain hopeful that they will provide their final decision in the same timeframe as the Maryland Commission. We will close the merger shortly after receiving all of the regulatory approvals.

Now, just before I turn this over to Matt, 2011 was really a very good year for Exelon. Every part of the company contributed to making it a good year, and while we don't like the current state of the power markets at all, I am absolutely convinced that we will find ways to keep beating what the computer says this all means.

And with that, I will turn it over to Matt.

Matthew F. Hilzinger

Chief Financial Officer, Treasurer & Senior VP, Exelon Corp.

Thank you, John, and good morning, everyone. This morning I will review a few details for the fourth quarter and full-year operating results and provide some information for what lies ahead. The press release issued this morning and today's slide presentation includes a significant amount of information regarding this quarter's results. I'll start by highlighting a few key items as shown on slide seven.

Exelon closed out 2011 by delivering fourth quarter operating earnings of \$0.82 per share and \$4.16 per share for the full year, which includes \$0.07 of unfavorable weather versus the prior year. We are pleased with our 2011 financial and operating performance, and as John discussed, all operating companies contributed significantly to these results.



Moving to slide eight, Generation contributed \$0.54 per share to the fourth quarter operating results, and \$3.01 per share for the year. Generation's fourth quarter results reflect favorable market conditions of \$0.06 per share, which is primarily driven by net favorability for the mid-Atlantic and Midwest regions and hydro production.

Now moving to ComEd on slide nine. ComEd delivered operating earnings of \$0.18 per share in the fourth quarter, and \$0.61 per share for the full year, resulting in an annual earned ROE of 9.3%. ComEd's fourth quarter results included \$0.06 per share benefit for the revenue requirement reconciliation, and the establishment of a regulatory asset for storm costs related to the implementation of the Energy Infrastructure Modernization Act passed earlier this fall.

The infrastructure legislation provides a reliable mechanism for the recovery of the \$2.6 billion capital expenditures ComEd will make to modernize and upgrade the system over the next 10 years, beginning in 2012. As required by the legislation, the Illinois Power Agency will conduct a procurement auction in February of this year for around-the-clock energy contracts for June 2013 to December 2017. The bids are due on February 10, and the Illinois Commerce Commission decision is scheduled for February 17.

Moving to PECO on slide 10. PECO contributed \$0.11 per share to the consolidated fourth quarter operating results, and \$0.58 per share for the year, resulting in an annual rate-making ROE of approximately 11%. The PECO region encountered its share of weather-related challenges in 2011, including Hurricane Irene in the third quarter and the surprise snow storm in late October. PECO's fourth quarter results were impacted by 20% fewer than normal heating degree days as a result of the unseasonably warm temperatures. In total, unfavorable weather cost PECO \$0.05 per share for the year versus the prior year.

With respect to load, ComEd and PECO's load trends detail are included in the appendix of today's presentation. For 2011, ComEd's total weather normal load declined by 0.5%, compared to 2010, in line with our third quarter projection. PECO's weather normal total load declined by 0.9% for the year versus the projected 0.5% decline.

In 2012, ComEd expects total load to be similar to 2011 results with only a small decline of 0.2% on a weather normal basis. This is not a surprising projection given that many of the economic forecasts that impact ComEd's load are expected to mimic 2011, including gross metro product, unemployment, housing starts, and energy efficiency expansion.

For PECO, as a result of the ramp down of the two oil refineries and the third expected by July 2012 plus weak economic conditions and energy efficiency programs, total electric deliveries are expected to decline by 5.4%, compared to 2011 weather normal results. Absent the oil refinery impacts, PECO's 2012 load forecast would only be down approximately 1.8%, compared to 2011.

On slide 11, you can see that we generated approximately \$5 billion of cash from operations for 2011. ExGen, Holdco's credit ratings are strong, ending the year with FFO to debt ratio of 52%, well above our target range of 30% to 35%.

With respect to our merger with Constellation, we have concluded our post-merger legal structure and now plan to merge Constellation Energy Company into Exelon Corporation and then transfer all of the Constellation Energy Company subsidiaries, excluding BGE, to Exelon Generation. Constellation Energy Company's existing debt will be assumed by Exelon Corp. And BGE will continue to exist as a separate subsidiary under Exelon. We expect to execute the structure reorganization immediately following the closing of the merger and both companies have received the necessary bank consents to proceed.

As John mentioned, given the status of the merger we will defer providing earnings guidance for 2012 until after we close. At our Analyst Day we will provide consolidated earnings guidance for 2012, including our expected pension expense and contributions, and we will discuss the combined company's strategic business objectives going forward.

Before we open the call for questions, I'd like to turn it over to Ken Cornew for a discussion on power markets and hedging.

Kenneth W. Cornew

Senior Vice President, Exelon Corp.

Thanks, Matt and good morning, everyone. I'd just – I'd like to say it's always a better morning these days when natural gas futures are up a little bit and for the past few days they have been. So, again, good morning. As John mentioned, I want to spend a few minutes this morning going over what we've witnessed recently in the gas and power markets and let me start with the gas market.

Natural gas prices have continued to move lower on strong production and an unprecedented lack of winter weather. Weak gas demand growth and general bearishness on economic growth are adding to the downward pressure. These factors are resulting in significant gas storage inventories that would persist with continued mild weather, which would be a drag on gas prices through 2012 and potentially into 2013. Between September 30, 2011 and the end of the year 2013 and 2014, natural gas prices dropped by approximately \$0.80. And as John mentioned over the first three weeks of the year, prices have fallen almost another \$0.30 and prompt-month gas has hit levels last seen in January 2002.

Longer term, in the 2014 to 2016 time period, we expect natural gas prices in the \$4 to \$6 range, which we believe is supported by the long run marginal cost of production. This will be defended on reasonable levels of gas demand growth, some of which we expect to come from coal plant retirements and the expected resulting increase in natural gas generation as a replacement source of power.

Producer discipline will need to be a key part of the longer term response to lower gas prices. We saw one announcement earlier this week of a shift from dry gas to more liquids rich plays, and we would expect that will continue.

What's been more surprising to us over the last several weeks is the over response to these lower gas prices in the power markets. We continue to believe that the Mercury and Air Toxic Standards, or MATS, will have a significant impact on coal generation economics causing the retirement of old, inefficient and un-scrubbed plants. We've updated our modeling of MATS to reflect both the recent drop in gas prices and a finalized rule and believe its impact on power prices in the 2015 timeframe to be in the \$3 to \$5 range at West Hub and NI-Hub.

This price impact is due to a combination of coal retirements and their effect on the existing generation stack, as well as higher dispatch costs for newly retrofitted units. Given the recent decrease in market power prices, our modeling is suggesting that little to no impact of MATS is priced into the current NI-Hub and West Hub market prices.

While we expect power prices to decrease – and let me explain why – while we expect power prices to decrease under a falling gas environment, we would actually expect heat rates to expand and not fall. For example, looking back to September 30 prices, we felt that the market was incorporating a significant portion of the MATS regulations. NI-Hub 2016 market prices was approximately \$44 a megawatt hour, and gas was at \$5.60 an MMBtu implying a market heat rate of 7.8.

As of January 4, gas prices had fallen to \$4.90. Our internal modeling, which reflects MATS regulations, suggests that heat rate should have increased to approximately 8.5. However, actual power prices were close to \$36, implying a market heat rate of under 7.5. This reduced heat rate indicates that the market is currently undervalued by at least \$5 a megawatt. Some of the weakness in the forward heat rates could be attributed to a potential lack of liquidity, the stay of Cross-State Air Pollutant Rule and early selling pressure. I should point out that this assessment changes every day based on movements in gas and power prices.

So, how are we responding? First, it's important to note that our ratable hedging strategy has largely insulated us from the effects in 2012. We started to hedge 2012 when PJM prices were significantly higher. We entered the year over 90% hedged in PJM for 2012 limiting the impact on our revenue net fuel in the near term.

For 2013 as indicated in the December 31 hedge disclosure, we were near ratable hedge levels of 61% to 64%. Going forward, we expect to remain near our ratable hedging level. We have kept considerable length in the South portfolio in both 2012 and 2013 based on tightening reserve margins in the ERCOT market and attractive spark spreads in the on-peak hours, which we can capture with our peaking generation capacity in the that market as we did in 2011. In 2014 and 2015, we still have a significant open position. We ultimately expect energy prices to adjust to fully reflect the benefits of environmental regulations.

In the meantime, we are using more put options, which with a decline in market prices could take us above our ratable hedge levels. This will continue to protect us from further moves down in gas price while still leaving upside for power prices to return to levels more in line with our fundamental views. As of now, our hedge percentages for 2013 and 2014 include approximately 7% and 10% from put options, respectively.

While we continue to remain disciplined in our hedging approach, we will also continue to be strategic in order to take advantage of upside in the market based on our fundamental views. We will accomplish this through use of put options, participation in various utility solicitations, leveraging our retail channel and carefully choosing the location of our sales.

This concludes our formal remarks. Operator, we're now ready to take some questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Greg Gordon.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Good morning, Greg.

A

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

Thanks. Good morning. So, obviously we – just to be clear, the open and hedged gross margins that you guys have laid out for us in your deck are from year-end, but pricing has continued to decline during the first three weeks of January. So, we should be cognizant that on a sort of true mark, the open gross margins would be a bit lower, is that accurate?

Q

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

That's correct, Greg.

A

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

And then, I'm actually intrigued by your commentary on the heat rate phenomenon. Are you just seeing a lack of liquidity out the curve that might be related to sort of a change in dynamics because there is just fewer hedge funds, fewer big investment banks that are transacting in those markets or are there other dynamics to play?

Q

Kenneth W. Cornew

Senior Vice President, Exelon Corp.

Greg, that's very well possible. I think in looking in at what's happened in January, we saw a significant decline in forward heat rates in the first week, week-and-a-half of January, and then we did see a rebound in those heat rates at some level back to better levels, but still not where we would expect them to be.

A

I think liquidity is an issue, particularly in the out years. I believe there is – there was some significant selling going on with the fears that the gas market was going to continue to decline. I do think the stay of the Cross-State Air Pollutant Rule had an immediate impact on forward power prices. So, when you lump all these things together, you saw a lot of bearish sentiment in the market. Although some of that has recovered in the past week or so, I still see, when I study spot market prices, spot market heat rates, when we look at our modeling, as I described in my commentary, I still see upside – significant upside in heat rates based on the real fundamental factors that we should be driving the market.

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

And what's the importance – does the importance of having a broadening retail channel sort of increase in this type of environment or is it are retail pricing channels also coming under pressure with the dramatic decline in gas?

Q

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

A

Greg, obviously retail pricing follows at some level wholesale pricing, so it's not the answer to the price decline, but the retail channel is a channel that allows for incremental margin. It is a channel that allows for you to not to transact in the standard or over-the-counter product markets. With the liquidity commentary you and I both have just brought up, it's always positive to have other channels to transact and sell your power besides over-the-counter markets that standard trading [inaudible] (32:08)

Greg Gordon*Analyst, International Strategy & Investment Group, Inc.*

Q

All right. Thank you, guys.

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

A

Thank you, Greg.

Operator: The next question comes from the line of Jay Dobson.

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

A

Good morning, Jay.

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

Q

Hey. Good morning, John. Hey, Ken, just finishing upon that. So, you suggested there'd be higher margins in the retail business, than we see in the broader market, understanding that the retail and the wholesale are going to track one another? Just wanted to finish up on the last thought.

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

A

Jay, on retail margins, we have seen retail margins be cyclical and inversely correlated to price and natural gas cycles. However, a couple of comments to that, the market has not really been very cyclical in the last couple of years, and has been steadily declining. The competitive environment on the retail side, particularly in new markets like Pennsylvania, where you do have many, many players looking for market share, has put pressure on margins. That being said, in our business we're seeing relatively stable margins in the areas where we're transacting.

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

A

Let me – this is John – let me try to flesh out what Ken just said because I think it's important. One of the reasons, there were many that you've all heard, but one of the reasons Exelon was interested in acquiring Constellation is that in general, the margin, if you go all the way to the retail customer, is somewhat larger than it is just selling into the wholesale market. And indeed, Constellation has been successful in securing quite attractive margins on regular basis.

Now what Ken is trying to say is that when wholesale prices rise, retail margins tend to shrink a little, but when wholesale margins fall, it goes in the same direction, but there is a lag and the retail margins get a little bit larger. Now, I think I said that accurately, didn't I, Ken?

Kenneth W. Cornew

Senior Vice President, Exelon Corp.

You did, John.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Now, that's part of why we want this whole retail market channel.

James L. Dobson

Analyst, Wunderlich Securities, Inc.

That's very helpful, Ken and John. I appreciate that. And then, John, I'll let you direct the question, but capital spending, I appreciate Ken's comments on fundamental views around power prices, but certainly, gas prices are going to make some of these uprates certainly out in the 2014, 2015 timeframe look a little less economic. So, just wondering how you are thinking about CapEx over the next three to five years, and I isolate this on a standalone basis, obviously.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Let me open the can and then defer this to Chris who is the one who is going to have the responsibility to make the ultimate reality here. Of course, we're reassessing capital programs. How we look at them is different, depending on where we look at them. For example, at ComEd with the new Illinois Act, we are going to get stable returns on increasing capital expenditures. When it comes to the nuclear uprates, we're going to take a fresh and hard-boiled look at them, as we do every six months. And we'll obviously take our most recent views of gas and power markets into account.

When it comes to like Exelon Wind, well, if the contract is good enough with a counter-party that's good enough, that has even different capital implications. So, Chris is going to be going through the whole capital program with this kind of attitude in mind. And with that, let me let Chris expand upon it, because he's the one who has got to do it and he's the one that you've got to rely on for making this all work in a way that protects your dividend.

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Yeah. I agree with everything that John said, starting with the balance sheet. We have maintained a strong balance sheet that gives us the room to weather these cycles, ending 2011 at over 50% FFO to debt gives us that room continuing to stress the balance sheet and analyze these capital projects, that will continue.

As we see them now, the uprates, and those are the ones that get closest to the bubble. We'll have to watch closely, and we do. We'll continue – but we've got time between now and 2015 and the beauty of these projects is the ability to stop or slow or accelerate as we see, and not be stuck with a lot of – some capital that makes us finish a project that may become uneconomic. So, we feel good about them. We feel there's a lot of time through 2012 to continue to analyze and look at the market. We see the trend, but we've got to understand the trend and the sustainability of the trend, and we'll – as I said, we have time and room to make the decisions through 2012 and into 2013 on how we continue to support 2015 and beyond.

James L. Dobson

Analyst, Wunderlich Securities, Inc.

That's great. Thanks very much for the clarity.

Q

Operator: Our next question comes from the line of Brian Chin.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Good morning, Brian.

A

Brian James Chin

Analyst, Citigroup Global Markets (United States)

Hi, good morning. Just piggybacking off Jay's question, could you remind us again what you've said in the past about to what extent the nuclear uprates have some degree of flexibility. If I recall right, there is some portion of those uprates that are a little bit more requisite than others. So, just a little bit of update or clarity on that that would be helpful.

Q

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

There were basically three parts to the nuclear uprate program and two of the three parts were relatively low capital, with relatively high returns, and now the ones that are left are the bigger capital requirements and the tougher decisions. Chris, why don't you pick up?

A

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Yeah. The first bucket was measurement uncertainty, it's a calibration method, allows us to get a few percent out of multiple units. The second bucket was on component replacement with new engineered standards, turbines, generators, more efficiency, and those projects are halfway through and are needed for plant life extension, but they also pay for themselves nicely with the returns on the more efficient components.

A

And the third and the final bucket that's most costly are the EPU's, the extended power uprates. They're at three facilities, LaSalle in Illinois, Peach Bottom, and Limerick. We've continued to watch those closely. We have the Peach Bottom project proceeding on, we're in the early stages of the Limerick and the LaSalle project. We've continued to watch them closely, they still have a positive – they still meet the positive hurdle rates that we require them to, but the optionality around those if we see the NI-Hub market can't support for instance, we could stop the LaSalle project without any ramifications on maybe a stronger market in PJM, West Hub or the East, or Peach and Limerick. So, that kind describes the optionality.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

I think the important thing for you all to remember is we probably have that optionality for another nine months or a year. There comes a point when you have to either do these things or not do them, and Mike Pacilio was talking to Chris and I the other day, what he said was no news to Chris, but it was probably a good reminder for me, which is don't just dither with these things and put them off – that doesn't work very well with large nuclear projects. So, it's very important that we get very conservative, very hard headed and reanalyses done over the next several quarters and make the right decision for you.

A

Brian James Chin*Analyst, Citigroup Global Markets (United States)*

Q

One follow-up to that third bucket, the EPU's, is that roughly about a third of the nuclear uprate and spending that we should see, so that we have some way of quantifying to what extent you've got flexibility on that, or is that not a reasonable assumption?

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

A

Yeah. I think it was slightly more than a third. They're putting it in front of me now. So, the EPU total was \$2.5 million (sic), if I've got this right, out of almost a \$4 million (sic) project.

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

A

Billion.

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

A

Billion, excuse me, Billion, out of a \$4 billion project. So, it's over half of the spend. It was a more significant portion of the spend, and I think we've disclosed that a couple of times before, and we'll make sure we put it in our update to you.

Brian James Chin*Analyst, Citigroup Global Markets (United States)*

Q

Appreciate it. Thank you very much.

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

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

A

Good morning, Steve.

Steven I. Fleishman*Analyst, Bank of America Merrill Lynch*

Q

Good morning, John. Just before my question, I just wanted to – I guess this might be your last earnings call, so we're going to miss your many metaphors.

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

A

[Laughter] Maybe my bottom line, too.

Steven I. Fleishman*Analyst, Bank of America Merrill Lynch*

Q

[Laughter] I don't know if there's a real direct way to answer this question, but is there a gas price in your heads whereby it's harder to be so strong on the ability to get through this period to get to MATS, in terms of security of the dividend and credit?

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

A

Well, the answer is no. But that's only half an answer, I suppose the other half is yes. The answer is no, because it's not just a matter of gas price, it's a matter of gas price, and how long it lasts. It's the amount of time it takes to get through. And so obviously the first things we do are things like reanalyzing the power updates. The next thing Chris is going to do is hunt for ways, consistent with all our commitments in places like Maryland, to cut cost. And we're going to deliver the merger synergies we've promised to you. We're going to do all those things, and that buys us a fairly substantial amount of space. But \$2.40 gas isn't jolly, if you are really going to project that for 10 years, we got a problem here, Houston. So, Chris, if you or Ken want to pick up on Steve's question.

I mean, I don't think there is a number, Steve, but there is a mix of numbers and time. I'm pretty sure that Chris has got several years to work with this, and he is going to be working very hard to make certain that we keep the dividend and the coverages. Chris, Matt, do you want to add to that? This is what it's all about.

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

A

That's well stated. We've got time. We don't think these prices are sustainable, but if for some reason they are, we have time to make adjustments as required, and we're as committed to the dividend as ever. And it will never be a surprise to you. So, the way we look at it, if we're in trouble, we're the lowest cost in the stack, where is everybody else, and how is this sustainable? So, with the hedging, with room on the balance sheet, we have time, and we'll prudently go through it. And you won't be surprised if something ever happens.

Steven I. Fleishman*Analyst, Bank of America Merrill Lynch*

Q

Okay.

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

A

I told you in one of my metaphors, Steve, that we were the hyena looking for the dead stuff on the road. There's going to be an awful lot for Chris to eat if you see these low gas prices continuing.

Steven I. Fleishman*Analyst, Bank of America Merrill Lynch*

Q

[Laughter] Okay. One other quick question, just since I think your last call, we got the final MATS rule, and we also – PJM, I guess, came out at least with their demand forecasts for the next RPM, any more color on kind of general direction of RPM based on the updates we've seen?

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

A

Ken or Joe, one of the two of you.

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

A

Yeah, Steve on the next auction, obviously there are a lot of moving parts to this auction. Some decline in demand, which would have some downward pressure on price, but several other elements that would have, I think, upward pressure on price. We have some net CONE and gross CONE changes that should be positive. We do have an ACR

calculation concept in which coal plants will have higher ACRs year-over-year, but what really is in my mind going to drive this next auction is how DR, particularly unlimited DR, prices itself in the next auction. With tightening fundamentals I would expect unlimited DR, if it clears in the auction, to be utilized in this batch. So, that's a big component, but all-in-all, I'm – I feel positive about an uptick in the auction, but clearly there are a lot of variables still in play that we need to ferret out.

Steven I. Fleishman

Analyst, Bank of America Merrill Lynch

Okay. Thank you very much.

Q

Operator: The next question comes from the line of Caroline Bone.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Good morning.

A

Operator: Caroline your line is open. You may need to un-mute your end. She's not responding would you like to move on to the next question?

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Please.

A

Operator: The next question comes from the line of Hugh Wynne.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Good morning, Hugh.

A

Hugh N. Wynne

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

Good morning, John. I think I'll keep my questions for sidebar conversation with Stacie and I'd just like to do something I don't usually, which is -

Q

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

What does she tell you that she doesn't tell me?

A

Hugh N. Wynne

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

I'm not going to tell you, John. Just do something I don't usually do, which is to throw out a compliment. Looking at your slide 15 here and there's one thing you don't mention, which I think is very important. In my experience, Exelon has increasingly stood out from its peers at a time of more aggressive in your face earnings manipulation, tortured justifications for earnings growth estimates that now are clearly out of date. You, by contrast have provided on a consistent basis numbers that I have found to be trustworthy earnings estimates that generally were

Q

conservative and a very transparent look at the future trajectory of earnings. So, I just wanted to compliment you on that. I think it causes your financial group to stand out relative to others, and I hope that Chris and Matt and Stacie will preserve that very fine tradition. So, thanks for that, and that's really the end of my comment.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

A

We're just a pack of pilgrims, and we want to keep your confidence as we march around in our drab black, and white and grey outfits.

Hugh N. Wynne

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

Q

Now there's a metaphor, John.

Stacie Frank

Vice President-Investor Relations, Exelon Corp.

A

All right. I think that's the perfect opportunity and perfect segue to turn the call back over to John for some closing remarks.

John W. Rowe

Chairman & Chief Executive Officer, Exelon Corp.

Well, I'm going to talk about slide 15. Stacie, thank you. As Steve Fleischman suggested this I expect to be my last earnings call as CEO. And that's after 28 years of trying to be useful to all of you and to customers all the way from little Skowhegan in Maine to here in Chicago. Obviously, I'm absolutely delighted to be able to end a very long career with what I hope and expect to be the completion of the Constellation acquisition. Exelon is a great company and with Constellation and with Chris' leadership, it's going to be an even greater company.

The only thing that could make me happier would be if power prices and earnings forecasts were back where they were in 2007 and 2008. That would make me happier because it would make you happier and make all of us richer, and that's the objective I've had in mind for all 28 years. But even though these aren't the best of times for Exelon, I'm still very proud that we have run this for our investors, and we've tried to do what Hugh Wynne suggested and give you straight numbers as soon as we know what they might be.

And as I look at the situation, yes, I loved it when Exelon was 40% bigger than Southern and I don't like seeing Southern and Duke and Dominion having more market cap than us right now. But the point I would like to make is the fully regulated integrations are on top of a curve, and we're right now in the trench. Things in 2008 were too good for us to be true forever, things right now won't be forever either, and while you wait for better times to come at Exelon you can know that Chris will be working like hell to beat the computer projections. You know that we have as good a management team to do that as anybody in the industry and you know that we have a very good dividend to sustain you in the meanwhile.

But, I did ask my colleagues to go back and try to come up with one capsule of what we have done for you during my years with ComEd and Exelon, and during my tenure your TSR was 295%. That's more than 10% compounded through last week. And that beats both the S&P 500, which was only 4% for that period commanded and the utility index at a little over 7% for the same period. And I say that when we're in the trough. Exelon will be back, I have a high level of confidence, and the people around me are those who will make it so.

As chart 15 suggests there are bunch of things that I'm very, very proud of, none of which I did all by myself, some of which I made a large contribution to, some of which I mostly stayed out of the way for, but those include the merger that created Exelon and the one we're now doing with Constellation. It includes the sale of ComEd's fossil plants and putting generation into a separate market-based business. It includes solving the reliability problems at ComEd, and we're going to help bring better service to Baltimore, too.

It improved close – keeping our word in Pennsylvania, when we did the merger there, I had a leading Pennsylvania public official cite, you are almost the only people whoever kept all their commitments in the acquiring jurisdiction. That's really important, because in this business, they always know where to find you, I'm giving everyone Chris's home number, Amy is very grateful. And if you don't keep the commitments, you don't have a very good field to play on for the next time.

In mean, one of the reasons we've been successful with Governor O'Malley in working out a deal is that people like Governor Rendell and Mayor Daley said "When these guys give their word, they keep it." And it's very important, and we will keep our word in Maryland just like we have in Pennsylvania and in Illinois, and just like we have for you. I do devoutly wish that I could leave you at a time when we have a higher stock price, but we have kept our words, we have focused entirely on what is good for our investors, and we have delivered over a very long time. We shall do so again. Thank you very much.

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

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