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Exelon Corp. (EXC)

Q4 2016 Earnings Call

CORPORATE PARTICIPANTS

Daniel L. Eggers

Senior Vice President-Investor Relations, Exelon Corp.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Jonathan W. Thayer

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

Joseph Dominguez

EVP-Public Policy, Government & Regulatory Affairs, Exelon Corp.

Joseph Nigro

CEO-Constellation & Executive Vice President, Exelon Corp.

OTHER PARTICIPANTS

Greg Gordon

Analyst, Evercore ISI

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Steve Fleishman

Analyst, Wolfe Research LLC

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Shahriar Pourreza

Analyst, Guggenheim Partners

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Stephanie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Exelon Corporation 2016 Q4 earnings 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 Dan Eggers. Please go ahead, sir.

Daniel L. Eggers

Senior Vice President-Investor Relations, Exelon Corp.

Thank you, Stephanie. Good morning, everyone, and thank you for joining our fourth quarter 2016 earnings conference call. Leading the call today are Chris Crane, Exelon's President and Chief Executive Officer, and Jack Thayer, Exelon's Chief Financial Officer. They're joined by other members of Exelon's senior management team, who will be available to answer your questions after our prepared remarks.

We issued our earnings release this morning along with the presentation, both of which can be found on the Investor Relations section of Exelon's website. The earnings release and other matters which we discuss during today's call contain forward-looking statements and estimates that are subject to various risks and uncertainties. Actual results could differ from our forward-looking statements based on factors and assumptions discussed in today's material and comments made during the call. Please refer to today's 8-K and Exelon's other SEC filings for discussions of risk factors and factors that may cause results to differ from management's projections, forecasts, and expectations.

Today's presentation also includes references to adjusted operating earnings and other non-GAAP measures. Please refer to the information contained in the appendix of our presentation and our earnings release for reconciliations between non-GAAP measures to the nearest equivalent GAAP measures. We have scheduled 45 minutes for today's call.

I'll turn it now over to Chris Crane, Exelon's CEO.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thanks, Dan, and good morning to all. Thank you for joining us. 2016 was a monumental year for Exelon, and I'm very proud of what we have accomplished. We made great progress in the ongoing transformation of our company while delivering on our commitments. We performed well financially. Our 2016 GAAP earnings at \$1.22 and our non-GAAP earnings were \$2.68, landing near the top of our original guidance range of \$2.40 to \$2.70.

At the utilities, we benefited from a hot summer and low storm costs. At ExGen, the nuclear fleet had its best performance year on record. And at Constellation, the team executed very, very well.

In 2016, for the first time, our regulated utility, less the holding company, earnings represented more than half of the total earnings and is consistent with our goal for the utilities to be growing the majority of our EPS. And we've implemented a dividend growth strategy of 2.5% annually through 2018.

In March, we closed on the acquisition of PHI, adding \$8.3 billion to our utility rate base and creating a significant geographic footprint covering the Mid-Atlantic region. The integration of PHI is going better than planned, help by our experience with BGE. We are working our way through the first of the two cycles of catch-up rate cases at the PHI utilities. We're seeing additional opportunities to help and improve the business processes in the stakeholder outreach process as we go through those rate cases.

The other banner highlight for 2016 was the creation of the ZEC programs in both New York and Illinois. For years, we have argued that all clean energy resources be treated the same way for their environmental attributes. We're able to work with a wide range of stakeholders in both states to enact programs that compensate these plans for their environmental attributes. As a result of these programs, we plan to continue to operate five plants and protect high-paying jobs, preserve needed tax basis in rural communities and maintain irreplaceable emission-free base load power production. These programs provide a supplemental cash flow for up to 12 years for some of our most at-risk plants.

Illinois legislation also provides significant benefit for our customers in energy efficiency, additional renewable generation and to benefit lower income customers. The program also adds to the earnings visibility at ComEd by implementing a decoupling mechanism, supporting energy efficiency investments where we now will be able to earn a return on those investments, and extending the formula rate to 2022.

In 2016, we also found ways to further grow stable revenue streams. We deployed \$5.2 billion of CapEx at the utilities, growing the rate base by \$2 billion, acquired ConEd Solutions, and will close the FitzPatrick nuclear plant station this spring. We have completed nine transmission and distribution rate cases, providing revenue increases of \$397 million.

None of these accomplishments would be possible without the remarkable 34,000 employees that work hard every day to keep the power and gas flowing. Our workers donated over 170,000 hours to local non-profits, and

Exelon donated \$46 million, both of which were the most ever for Exelon. The commitment to our community is clearly part of who we are and shows our engagement beyond the products we deliver every day.

We also recognize that the support of our employees is essential to high-performing work cultures, and that is why Exelon took industry lead on two important initiatives in 2016. We expanded our paid leave policies to what are truly the best in class, with 16 weeks of maternity leave, 8 weeks for fathers and adopted parents, and 2 weeks of family leave. We were also the first utility to sign the White House Equal Pay pledge.

Being a good citizen also means supporting our local businesses. In 2016, our spend with female and minority-owned businesses reached \$1.9 billion, over 200% since 2011, and it represents almost 20% of our sourceable spending. The team has done a great job making sure we work with our suppliers across all our communities. Doing the right thing by our employees and communities is the smart thing for business. And more importantly, it's the right thing to do. We are proud to be leading the industry forward on these fronts.

Turning to operations, our utilities had a great year. The legacy Exelon utilities continued to perform at top quartile on key operating and customer satisfaction metrics. These are the foundations of a constructive regulatory relationship. The efforts at PHI before the merger and our intense focus on operations since then has started to show benefits.

The color blocks are improving even compared to 2015, although we did get some help from favorable weather in 2016. PHI is still improving. We're encouraged by the gain so far, and we have plan in place to deliver for our customers and stakeholders.

The color blocks show great performance, but this actually is underselling how well we did in 2016. We actually had a number of best-ers this year. ComEd, BGE, PECO had had their best customer satisfaction ever. ComEd and PHI outage frequency were the best ever. And BGE had its shortest average outage duration ever. The benefits of our uniform management model across the utilities, our smart grid initiative, and our continued reliability spending are clearly paying dividends for our customers.

Turning to our non-regulated business operations, we had a banner year in generation as well. Our nuclear fleet had its highest ever capacity factor at 94.6% versus the industry average of 90.4%, which allowed us to produce an additional 7 terawatt hours more and approximately \$275 million of revenue than if we had just been average. We also had the shortest average refueling duration ever, just over 22 days versus the industry average of 37 days. The fact the entire fleet performed so well against the backdrop of potential plant closures and fighting for ZECs is truly a testament to the professionalism of the workforce, which we all are greatly appreciative of.

Our gas, hydro, and renewable assets also had a good year, strong energy capture on the renewable and the power dispatch on our conventional plants.

At Constellation, the team performed exceptionally well. Our customer renewal rate was 77% for electric and 91% for gas. Equally important, our new business win rate was at 28% last year, and our C&I market share grew to 25%.

Now, I'm going to turn the call over to Jack to provide the financial update.

Jonathan W. Thayer

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

Thank you, Chris, and good morning, everyone. My remarks today will focus on 2016 results, 2017 earnings guidance, and updates to a number of our financial disclosures including gross margin. Going forward, the fourth quarter will be when we update key financial disclosures and roll our hedge disclosures over the year.

On slide 8, as Chris stated, we had a very strong year financially and operationally across the company. For the full year, we delivered adjusted non-GAAP operating earnings of \$2.68 per share, near the top end of our original guidance range of \$2.40 to \$2.70 per share.

Strong performance at both our utility and generation businesses drove these results. The appendix contains further detail on both our fourth quarter and full-year financial results by operating company on slides 52 and 53.

Turning to slide 9, we expect to deliver full-year 2017 adjusted operating earnings of \$2.50 to \$2.80 per share with the first quarter in the range of \$0.55 to \$0.65 per share. Our 2017 guidance range includes a full-year contribution from PHI, contributions from the FitzPatrick plants after closing, and the partial year impacts of the New York and Illinois ZEC programs that start on April 1 and June 1 respectively.

The growth in utility earnings primarily reflects continued reliability investments at ComEd, plus higher formulaic allowed ROEs, as well as increased rates from the recent distribution rate cases at BGE, ACE, and Pepco Maryland. These are partially offset by higher O&M at PECO and BGE related to a return to normal storing costs after a calmer 2016, as well as higher depreciation and amortization driven by capital expenditures.

At Exelon Generation, the year-over-year decrease is primarily driven by the impact of hedging into lower energy prices, partially offset by revenues from the New York and Illinois ZEC programs as well as the new Texas CCGTs coming online this summer. More detail on the year-over-year drivers by operating company can be found on the appendix starting on slide 55.

On slide 10, let's turn to our updated multi-year forecast, and we'll cover 2017 to 2020 and provide a refresh of what we shared with you at the Analyst Day. For your convenience, in the appendix, we show these updated numbers side-by-side against the Analyst Day numbers.

We'll invest more than \$20 billion into our utilities to the benefit of our customers over the next four years, which is a slight increase since Analyst Day. Upside comes from the Future Energy Jobs Bill in Illinois, which will allow ComEd to grow rate base and earn a fair rate of return on energy efficiency investments. We now project rate base growth of 6.5% through 2020.

On slide 11, of the \$9 billion of rate base growth expected through 2020, approximately 75% is covered under either formula rates or other similar types of mechanisms. These timely recovery mechanisms allow us to make additional investments on the behalf of our customers while supporting our ability to earn our allowed ROE. Where we do not have mechanisms, we will continue to work with stakeholders to enact and implement these types of tools. I should also note that following the passage of the Illinois legislation, more than 70% of our rate base is decoupled.

On slide 12, we showed the trailing 12-month blended transmission-distribution earned book ROE at each of the PHI utilities relative to their allowed ROEs. ROEs at PHI have improved modestly, but there's still much work to be done. Legacy Exelon utilities had a strong 2016, earning 10.5% as a group, helped by favorable weather and lower-than-normal storm activity.

On a weather-normalized basis, the earned returns or ROEs would be closer to 10.1%. Improving the earned ROEs at PHI and sustaining a strong performance of the legacy Exelon utilities will be important to meeting our overall utility earnings growth targets. Going forward, we will provide a slide on a quarterly basis to keep you updated on the progress we're making from an earned returns perspective.

On slide 13, we have an update on our current rate cases that are still in progress. Since our last update, we have completed two of the pending rate cases, the Pepco Maryland case was decided in November and we received a \$52.5 million revenue increase. In addition, the ComEd annual formula rate filing was settled in December with an increase of \$127 million related to approximately \$2.4 billion in capital investments made in 2015. Those investments which includes \$663 million for smart grid-related work has helped strengthen and modernize the electric system.

We still have four pending rate cases at Pepco and Delmarva, combined we're asking for \$216 million in revenues, which reflects recovery on multiple years of smart meter and other capital investments that have been made to improve the reliability of the grid across these jurisdictions.

We expect the final ruling on the Delmarva Maryland case in mid-February, with the remaining cases being completed over the summer. More details on the rate cases can be found on slide 61 through 66 in the appendix.

Consistent with our previous discussions, we expect to file rate cases in each of the PHI jurisdictions again in 2017, as we continue to close the gap between allowed and earned ROEs.

Slide 14 provides an update on our outlook for utility EPS. The bars are largely the same as in Analyst Day, albeit \$0.05 higher in 2017 and 2020. The increase in 2017 is due to continued cost management efforts; and the increase in 2020 is due to ComEd ROEs and efficiency-related investments. With a higher 2017 starting point, we now project strong 6% to 8% utility EPS growth through 2020.

Turning to slide 15, we've modified our gross margin disclosures for ExGen. We now include a new line that carves out capacity and ZEC revenues. ZEC revenues are the payments Exelon receives in New York and Illinois for the beneficial environmental attributes of our nuclear plants. The purpose of this new line item is to clearly call out the portion of our gross margin that is more contracted in nature. As a result of including ZEC revenues from New York and Illinois, the FitzPatrick acquisition and the reserved – reversal of the shutdown decisions of Quad Cities and Clinton, total gross margin increased by \$650 million, \$1.05 billion and \$1.1 billion in 2017, 2018 and 2019 respectively. Almost all the gross margin changes relate to the fleet updates with changes in power prices, adding \$50 million in 2018 and costing us \$50 million in 2019.

Turning to slide 16, on our last earnings call, we announced we were reducing O&M by \$100 million in 2018 and \$125 million in 2019 at ExGen, adding to the \$400 million of savings we've already taken out of the business.

The baseline O&M outlook remains the same from last quarter, although the total O&M cost outlook has increased with the addition of the FitzPatrick, Quad Cities, and Clinton power stations which we break out on the slides for your reference.

Our baseline capital spend is decreasing through 2020, driven by the proactive investments we've made in our nuclear fleet over the years. These investments have resulted in best-in-class performance and reduced risks for significant unplanned capital spend in the future.

On slide 40, we provide greater detail on these investments and the impact they have had on the nuclear fleet since 2010. We continue to run an efficient organization, and we'll always look for ways to reduce costs and run the fleet more cost effectively while maintaining the highest standards for safety and reliability.

Turning to slide 17, ExGen will generate nearly \$7 billion of free cash flow through 2020, which is more free cash flow for that time period than what was included in our Analyst Day disclosure. This is primarily driven by the incremental cash associated with the New York and Illinois ZEC programs, partially offset by the impacts of lower power prices in the outer years. As we've said before, we will use ExGen's free cash flow to fund utility investment and pay down over \$3 billion of debt through 2020.

Turning to slide 18, we remain committed to maintaining a strong balance sheet and our investment-grade credit rating. We are forecasting to be at 3.3 times debt-to-EBITDA at ExGen by the end of 2017 and have a clear path to our long-term target of 3 times debt-to-EBITDA. As we've said before, we will look to retire holding company debt once we've reached the 3 times target at ExGen.

From a recourse perspective, we are already below the 3 times debt-to-EBITDA level at 2.7 times, as shown here on the slide. This ratio will continue to decline as well with the paydown of debt to reach our consolidated 3 times target. The health of our ExGen balance sheet is strong and is continuing to improve.

Before I turn the call over to Chris, I'd like to spend a few minutes on the potential impacts of tax reform legislation of Exelon, which has been a topic of discussion since the election. Research reports and our peers who have already reported earnings have discussed the impacts to the sector and their businesses.

From a policy perspective, we think simplifying the tax code and lowering rates is the right objective. We are actively working with our partners at EEI and NEI and on our own to help inform the ultimate tax design. No legislation has been introduced at this time, so no details on exactly what will be included or how it will be => included is available beyond the short description of the Trump plan or the House blueprint.

In fact, just last week, Senate Finance Committee Chairman Hatch said he's not planning on using the House legislation as a starting point. So the Senate will have its own bill, and there's no proposal for that bill at this time. And President Trump's economic team has stated that they will have their own views on tax reform once they're in place.

At this time, there's no way to know what a tax reform package will look like or how long it will take to advance, which leads us to the mindset that is premature to quantify how tax reform will impact Exelon's financial outlook. We run a wide range of scenarios to understand the high-level impacts of common themes in the House and Trump plans.

The House blueprint, excluding order adjustment provisions, will be neutral for our utilities, neutral to positive at the GenCo, and negative at the holding company due to the elimination of all interest deductibility. Order adjustment will be an additional negative at ExGen due to the importation of nuclear fuel, and at that the utilities would raise the cost of imported T&D capital equipment that goes in the rate base.

We've seen significant opposition to both the border adjustment and elimination of interest expense deductibility recently, leaving the fate of these provisions unclear. To the extent the Trump campaign becomes the basis of legislation and the election is made to take interest deductibility rather than immediately expense capital additions, it could be meaningfully positive to Exelon's earnings.

We see a long path until tax policy has clarity. We'll continue to advocate for the best interest of our customers and shareholders as legislation is developed.

With that, I'll now turn the call back to Chris for his closing remarks.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thanks, Jack.

This next slide should look familiar to you at this point. This is Exelon's value proposition, and we are not wavering from these commitments. Strong utility growth, we expect to grow the rate base at 2.5% annually through 2020 – at 6.5%. Dan caught that one right away, 6.5% annually through 2020, which converts to EPS growth off our 2017 midpoint of 6% to 8% a year.

We will continue to look for opportunities to invest in reliability and customer service. ExGen is expected to generate nearly \$7 billion of free cash flow through 2020, which is better than we had budgeted at the Analyst Day. We will use this free cash flow primarily to invest in the utilities, pay down over \$3 billion of debt over the next years. And we will continue to optimize the value of ExGen through best-in-class operating like we saw in 2016, capturing the benefits of our gen-to-load matching strategy, and fair compensation for our clean energy assets, similar to what we've accomplished in Illinois and New York.

We remain focused on the balance sheet and are comfortably exceeding our credit metrics targets over the planning horizon. And our capital allocation priorities will remain the same, regulated utility growth, dividend growth, and debt reduction. The leadership team firmly believes we can deliver on these commitments to our shareholders.

Our executive compensation is directly tied to these goals, with the long-term components driven by hitting the multi-year earnings targets at the utilities which ensures we grow this business as we've committed to you. Meeting our targets improvements in earned ROEs at the utilities, which ensure we turn around the performance of the PHI utilities and maintain a strong investment grade credit metrics, which ensures the financial health of the business, no matter what the commodity price backdrop is.

Finally, our long-term compensation will be adjusted point per point with the three-year performance relative to the UTY, meaning that we are directly aligned with the long-term shareholders. I'm proud of everything that this team has accomplished in 2016 and very excited about the plan we have in place for the future.

So, with that, Stephanie, we can open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Greg Gordon with Evercore.

Greg Gordon

Analyst, Evercore ISI

Q

Thanks. Just a couple of quick questions as you guys were pretty thorough. So, can you give us an update on where you were on some of the tactical decisions you've made to sell down or exit from certain businesses, both the sell-down of the renewables business and the process on Mystic?

Jonathan W. Thayer

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

A

Greg, it's Jack. I'll take that. So, I'll start with the renewables. I think it's been widely reported that that we've been in the markets talking about a joint venture for our renewables business, and that process is going well. We want to maintain a stake in that business as it's important to our overall participation in the energy complex.

We do have a significant amount of project-level debt on those projects. So there is a thinner equity layer on top of that. So the proceeds, while meaningful, will be used for debt reduction. We'd expect that to be a very positive event for the company.

With respect to the Mystic process, that process continues to be underway. We've had broad interest in those assets as they play a key role in that needful market in Downtown Boston. We continue to work with the various stakeholders to draw it to a conclusion. And we look forward to that having a favorable outcome as well here.

Greg Gordon

Analyst, Evercore ISI

Q

Jack, can you give us any insight as to why it's taken longer than maybe we had initially expected when we – when you first articulated a desire to potentially sell those assets, it was at the EEI last year. And there was the potential for sort of an event early in the first quarter, and we still haven't seen that. And then, even if you were to get a deal tomorrow, given the lack of a quorum at the FERC, what are we looking at in terms of realistic timing to actually come to a closing of a transaction there?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

So, if we did openly talk about it after it had been leaked and figured we get that out there, but there is no fire sale here. We need to take our time and go through the process and make sure we obtain the right value for us and for all involved in it, so working through it, and we'll keep you informed when we're at a closure.


Greg Gordon

Analyst, Evercore ISI

Q

Okay. But assuming you got a price that was accretive to what you think the implied value is today for ExGen, that would accelerate the deleveraging that you're talking about here on slide 18 in the handout, right?

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 **Corrected Transcript**
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Jonathan W. Thayer

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

That's correct, Greg.

A

Greg Gordon

Analyst, Evercore ISI

Okay. Fantastic. And the growth rate target for the utility now, that's just clearly a function of having a higher base in 2017, you're \$0.05 higher in 2020. So, the headline number is not a reduction in the expectations, it's just algebra, right?

Q

Jonathan W. Thayer

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

That's correct. And you'll know with the passage of Illinois legislation and the energy efficiency programs, the solar programs we added to CapEx at ComEd, rather substantively throughout the curve. I think it's also important to note, we have a pretty conservative policy on only putting into our CapEx forecast the utilities, plants that are fully formed for capital investment. So, as time progresses and as we see opportunities to invest in the behalf of our customer, there are the opportunities for that rate base and capital budget to grow in those outer periods.

A

Greg Gordon

Analyst, Evercore ISI

Right. I have more questions, but I'll go back in the queue. Thanks.

Q

Jonathan W. Thayer

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

Thank you.

A

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

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Yeah. Good morning, guys.

Q

Jonathan W. Thayer

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

Good morning.

A

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning.

A

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Can I ask, Jack, I noticed you mentioned that the – that debt reduction target on slide 17 is now ExGen and HoldCo, and I think before it was just ExGen, so just to confirm that – if that is the case. And secondly, how much

Q

of the \$3 billion roughly is it going to take to get to the 3x debt-to-EBITDA target? So, how much is therefore left over for HoldCo on the current plan?

Jonathan W. Thayer

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

A

So, Jonathan your first comment is correct. We previously were talking about retiring debt at the GenCo, now we see the opportunity once we achieved 3 times debt-to-EBITDA to retire debt at the holding company. With respect to the debt retired – we'll retire at the holding company, we have a \$900 million maturity in 2020, where I think you could see us potentially retire debt or some component of debt, and we're looking at opportunities with use of proceeds from a variety of strategic activities that we have ongoing to address the roughly \$600 million of ExCorp that's not tied to the mandatory convertibles reissuance of \$1.15 billion in 2017.

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

What's roughly the timing that you see in this kind of – through 2020 outlook that you'd get to 3x on the GenCo absent an asset sale?

Jonathan W. Thayer

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

A

I think it's – I think – I think we can get there through cash generation I think over the next, say, two to three years. And then, we can – as we get out in the 2019, 2020, we can work against the holding company.

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Thank you. And then, if I could ask one other thing on – can you give us any sort of thoughts around potential for other states to consider New York and Illinois style nuclear measures?

Joseph Dominguez

EVP-Public Policy, Government & Regulatory Affairs, Exelon Corp.

A

Jonathan, this is Joe Dominguez. Right now, active discussions are occurring in Connecticut which is probably the most advanced. We believe those discussions will be started in Ohio, already have been relatively shortly in New Jersey and in Pennsylvania. I think all of the states, as Chris indicated before, states that understand the value of the nuclear plants and want to keep these plants operational, and so the level of discussion is at different stages, some with fully formed legislation that's already moving through committee, that's the case in Connecticut, and stakeholder average [indiscernible] (32:16).

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Okay, great. That's it, thank you.

Operator: Your next question comes from Steve Fleishman with Wolfe.

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Hi, good morning. Can you hear me okay?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Yes, we hear you fine, Steve.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Great. Just a couple of nuclear questions. First, could you give a sense on the appeal process on the ZECs, I guess, in New York, and when we should know from the court kind of roughly either way on the ruling both, I guess, your motion to dismiss and then an actual ruling?

Q

Joseph Dominguez

EVP-Public Policy, Government & Regulatory Affairs, Exelon Corp.

So in the Federal Court action in New York, as you noted, a motion to dismiss has been filed. That's been fully briefed. I know a number of you have asked for the briefing packages, and those are available to anybody who would like them. We feel very strongly about our case and we believe it should be dismissed on that motion. But if it proceeds to trial, that trial will occur through to the balance of the second quarter, and we would expect a decision sometime this summer.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Okay. And then just more broadly on nuclear, there's been talk of the Trump administration wanting to do something for nuclear. Is there any better visibility on what they might be looking at or things that you might be suggesting?

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

There hasn't been any concrete conversations, just a preliminary recognition of what's going on in the marketplace and the need to maintain the diverse power sources, looking at the economics, local economics of them and the benefit to the customer. So just starting, a lot more dialogue will happen with NEI and the administration, and we're staying involved with NEI and also with our own folks interfacing with the administration.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Okay, one separate question on tax reform. I know you don't want to get into specifics, but just if we think about your company and the issues you care most about getting fixed or adjusted, are there any particular ones that you're most focused on addressing of the different factors that you mentioned?

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Yes, we think Jack did a good job framing up why it's really premature for us to get point to point. I spent a lot of time on my own and with the EEI leadership in DC to look at this effect on utilities, utility customers, and what has happened in 1986 tax bill. So there are certain things in the regulated space that create a difference. I'm sure a lot of industries are trying to say they're different. But surely back in 1986, the insurance industry and the utility industry, the regulated utility industry was recognized as an exemption or a different methodology.

A

So that kind of conversation is happening within the process. It's not right to have a debate across the table until we have a bill, but coalescing under Tom Kuhn's leadership and the EEI executive leadership and board, we're working through those issues. Everybody is for a lower corporate tax rate. That's an easy one. Jack talked about the probability of the blueprint staying the way it is now versus after the sausage is made. It's something we'll just have to stay engaged and follow. But you reduce an interest deduction from a utility, and that automatically goes on to the customer, and we've got to make sure it's not an unintended tax increase for the customer and we just have to work through those details.

Steve Fleishman

Analyst, Wolfe Research LLC

Great, thank you very much.

Q

Operator: Your next question comes from Julien Dumoulin-Smith with UBS.

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Hey, good morning.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning.

A

Jonathan W. Thayer

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

Good morning.

A

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Hey, maybe quickly following up on the last one here with Steve, can you elaborate a little bit on what the read-through would be from the litigation in New York vis-à-vis Illinois? Would there be an immediate impact, or how are you thinking about this perhaps across the various ways it could play out? And I've got a follow-up back.

Q

Joseph Dominguez

EVP-Public Policy, Government & Regulatory Affairs, Exelon Corp.

Julien, this is Joe. The programs in New York and Illinois are very similar. They're both based on paying for the environmental attribute based on the social cost of carbon. And so the read-through is that when we are successful in New York, we think it will be a very helpful precedent to challenge the Illinois legislation.

A

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Got it, excellent. And then just following up here on Greg's earlier question, just to establish a little bit of a baseline, how are you thinking about your portfolio evolution given the need to backstop the broader retail business? Are basically all combined cycles, broadly taking here, something that could be looked at? And then also at the same time, how are you thinking about the expansion of the retail business? Obviously, there have been some headlines out there on that as well.

Q

Joseph Nigro*CEO-Constellation & Executive Vice President, Exelon Corp.*

A

Julien, good morning. It's Joe Nigro. Broadly, we look at our asset portfolio on an annual basis and we look across our nuclear fleet through to our fossil and renewable fleet. And strategically, you've seen some of the assets that we've divested through time here, and I will tell you it hasn't had a material impact on managing our retail portfolios, given that we carry a lot of what I would call optionality in our portfolio with the generation assets.

And then additionally, when we need to, we will go to market to augment with additional products. So we're very comfortable where we are and we continue to strategically look at our portfolio. And if the market is willing to pay for something maybe more than we have value on, then we'll take that into account, make the decisions necessary recognizing that we do need to continue to manage our business. And I'm sorry, the question on...

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

A

Retail growth.

Joseph Nigro*CEO-Constellation & Executive Vice President, Exelon Corp.*

A

Retail growth, we're now – our C&I business is, as Jack mentioned or Chris mentioned in the script, we're about 25% of the market share in C&I. Our margins remained stable in that \$2 to \$4 origination range, and we continue to monitor that very closely. You heard what our renewal rates are and our win rates are, and they're in line with what we've laid out in the Analyst Day, and we're very comfortable with the plan that we have in place as we move through 2017. We'll continue to monitor that, but right now, we're very happy with where we are.

Julien Dumoulin-Smith*Analyst, UBS Securities LLC*

Q

And you wouldn't necessarily take this out a little further, acquisitive expansions in addition to organic, and maybe that's a good kind of segue into thinking about – what kinds of targets are you thinking about on a volumetric basis for the volumes in aggregate as we move through time?

Joseph Nigro*CEO-Constellation & Executive Vice President, Exelon Corp.*

A

We've given you the volumes, and I think previously – and we rolled them out again at the EEI, and we're very comfortable with where we are on the volume scale. I would tell you, you continue to see consolidation in the retail market, you see some generation entrance that have bought entities, existing entities, not really creating their own retail platform, so there's really no change there.

As you know, we've bought a few in the last few years, and we see the consolidation. We'll continue to hunt for those if the opportunity is right, and we see value and it fits our portfolio in what we're trying to achieve with the customer. And we'll remain disciplined with that. With our acquisition a few years ago of Integrys, and recently, last year with ConEd, we've been very happy with that outcome and the way they've integrated into our portfolio, and we'll continue to look for those type of opportunities.

Julien Dumoulin-Smith*Analyst, UBS Securities LLC*

Q

Thank you, gentlemen.

Operator: Our next question comes from Michael Weinstein with Credit Suisse.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Hi. Good morning.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning, Michael.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC (Broker)

I was wondering if you could comment a little bit on the impact or the impacts of lower load growth and capacity performance in the PJM, upcoming PJM capacity auction. And separately, FERC recently rejected the MISO proposal for a competitive retail solution in certain zones. One of the criticisms, I think, FERC had in the rejection was that it was not broad enough throughout MISO. I'm just wondering if there's any potential for some kind of broader forward auction system throughout the entire Midwest ISO.

Joseph Nigro

CEO-Constellation & Executive Vice President, Exelon Corp.

Yeah. Good morning, Michael. It's Joe Nigro. I'll take the first question on PJM, and then I'll hand it off up to Joe Dominguez, and he can talk a little bit about the MISO question. From a PJM perspective, there is a lot of moving pieces, the load came in, as was previously announced, down about 3.5 gigawatts or 2%. So, that wasn't unexpected. We cleared about 27 gigawatts of non-CP supply last year or 16% of what cleared, and as you mentioned, that will be 100% CP this year. That's obviously a positive change when you think about price. There were some movement in the import capabilities. We saw it shrink some into the ComEd zone. And we saw it increased slightly into eastern Mass., so that has an offsetting effect in those two areas.

I guess the big thing is it remains around the two biggest variables which are the bidding behavior, and as you know, year-over-year, the energy rents are down, given how low the prices were on coal last year, and then additionally, what the new build is. And we continue to struggle to see how the economics of that new build works, given how marginal it is at best with where the market is on a forward basis. So, putting that all together, there's a lot of moving pieces where our long-standing policy is really not to try to forecast that, but there's a lot of puts and takes that we're evaluating as we go through this.

Joseph Dominguez

EVP-Public Policy, Government & Regulatory Affairs, Exelon Corp.

And Michael, this is Joe Dominguez, the short answer to your question is, no, I don't see a likelihood that we will see, as a result of this FERC order, an expansion of the proposals for what was effectively Southern Illinois and Michigan across all – with MISO. I could go into a little bit more detail but the answer is no.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Okay. Thank you very much, guys.

Operator: At this time, we have reached the allotted time for questions. Our final question will come from Shahriar Pourreza with Guggenheim Partners.

Shahriar Pourreza
Analyst, Guggenheim Partners

Q

Good morning, guys.

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

A

Good morning, Shahriar.

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

A

Good morning, Shahriar.

Shahriar Pourreza
Analyst, Guggenheim Partners

Q

Just real quick on the \$0.32 that you're now guiding on ZECs and FitzPatrick, can you – are you embedding any sort of synergies of owning Nine Mile and FitzPatrick within the same portfolio, or you're still kind of looking at this opportunity?

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

A

We're still looking at the opportunity, we're in the process of integrating that plans and that's going quite well. We've got to close the acquisition in March. Obviously, given its proximity to our Nine Mile units, we anticipate that there may be opportunities as we get in there and optimize the operations.

Shahriar Pourreza
Analyst, Guggenheim Partners

Q


Okay. Got it. And then, Joe, can you just real quick handicap Pennsylvania, maybe from a potential timing or when we can see something? Are we looking at an adjustment to the RPS to include the nuclear, or is it more of a function of sort of a similar ZEC-type program?

Joseph Dominguez
EVP-Public Policy, Government & Regulatory Affairs, Exelon Corp.

A

I think historically what we've done is we've begun the discussion, and the first stage of the discussion is establishing a recognition that nuclear is the lowest cost and most reliable zero-carbon option for our customers, that's where we are in Pennsylvania. The next stage, I think we'll start getting into different solution sets, and you've identified a few, right. So, you could look at something that's similar to the ZEC programs that have been adopted. You can include nuclear as a qualifying resources and RPSs. And it's way too early for me to handicap where that discussion is going to go. There are a lot of different stakeholders. What's important to us is syncing effectively the first concept, which is that nuclear needs to be treated on a level playing field with other non-emitting resources. That will be the first objective in having that discussion. And then, I think, I can ask, as we move through this and in subsequent calls, we could talk about a bit more about how we handicap the options and outcomes.

Exelon Corp. (EXC)
Q4 2016 Earnings Call

 **Corrected Transcript**
08-Feb-2017

Shahriar Pourreza
Analyst, Guggenheim Partners



Terrific, that's all I have. Thanks, guys.

Operator: At this time, I would like to turn it back over to Chris Crane for closing remarks.

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

Thanks, everybody, again for joining. And hopefully, we got all your questions. If not, then get a hold of Dan and his group, and we'll fill in any blanks. It was, as I said, a phenomenal year in 2016, and we're looking forward to building on that in 2017. Thanks.

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

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