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MANAGEMENT DISCUSSION SECTION

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning. It's 8:15. So we'll get started, as some more folks come in. And thank you all for coming this morning. We have, with myself, Chris Crane, I'm the CEO of Exelon; Jack Thayer, our CFO; Bill von Hoene, our EVP of Strategy and all things corporate; and Ken Cornew, who is the President of the GenCo.

We have some other Exelon staff in the room, and we'll go into a Q&A session after some prepared remarks. And then we'll be around, if we don't fulfill the whole time at the end to answer any questions. So thanks, again, for coming.

It's no secret that Exelon and the industry is facing some challenges today. The power and natural gas markets continue to be low over the next few years. Our NI Hub power is trading around \$31 in 2016. Natural gas is approximately \$4, and we've had some lower capacity prices in the forward markets.

Load growth projections remain modest, and rapidly increasing wind penetration fueled by excessive subsidies and mandates have reduced the size of baseload generation market. We continue to lack volatility and strong competition in the retail sector.

So many of you have commented on the impacts of these challenges to Exelon and our earnings and valuation. Valuating us at mark-to-market assumes that we're going to sit on our hands and do nothing to improve our position, and that's just not correct.

We believe that the markets will improve. Even if we are wrong, there are steps that we can take to improve our position such as asset optimization, investment, cost management, and public advocacy, which I will talk a little bit more in a minute.

From a market view, we believe in our fundamentals and they indicate the market will recover. Power prices will increase, baseload retirement, coal unit retirements are coming, and appropriately the heat rates do not reflect those retirements in March of 2015. The coal plant economics are weakening in the face of the declining natural gas and power prices. Our latest analysis shows 50 gigawatts of coal retirements in the Eastern Interconnect and the majority of that has already been announced.

Further the units that survive MATS will have higher operating cost than the plants running today due to the need for running scrubbers or other pollution controls. And finally, those coal units that choose the path of refueling, going into switching to natural gas will end up with much lower capacity factors.

There is a potential for further upside from increased demand response bids and other new market rules that are going into PJM and it's not included in our forecast. So the upside of the recovery or the correction in the PJM capacity market, we have not baked in. In 2016, NI Hub forward curves on peak heat rates are currently trading around \$9, but the spot market heat rates are clearing at \$13 and more than \$10 in 2012 and 2013 respectively. These offer both forward and prompt opportunities in the upside as the heat rates and have been part of our strategy as we hedge going forward. Power prices are trading lower than expected given the price of natural gas and we've all seen that. So we're not waiting for the market recovery; while we believe our fundamental view will materialize in the market, we're not just sitting on our hands as I mentioned and waiting for it.

We're taking aggressive actions to improve our value, we have a record of making tough decisions and are taking actions facing these challenges and – previously and we will do that again in the future. Some of the things we're looking at or have done, many of you know or are aware of our dividend decision to properly size it to our business model that we made earlier this year, which has left us in a very secure position with a strong balance sheet to make investments as we go forward. It wasn't a popular decision but it was the right one to be done and our balance sheet as I said will be much stronger for it.

We've acted on our fundamental view of our market by deciding to stay behind the ratable hedging strategy in some areas. We've cut \$550 million of cost from – in the merger synergies and at the beginning, our first announcement of the merger that we were able to complete in ten and a half months with Constellation, we thought that would be about \$190 million but we did achieve \$550 million on an annual basis. We have \$100 million that we announced, additional O&M reductions in the second quarter as Jack works with all the business units to reel in costs. We've been looking at another \$50 million in the forward years to continue to pull out.

One of the other actions we took with our partners at EDF is to consolidate the CENG nuclear fleet, the JV that was between Constellation and EDF. We're consolidating that into the Exelon nuclear fleet which will save us \$50 million to \$70 million as a combined JV and we'll get half of that. We've canceled planned up rates. We do believe nuclear is a key part of the future but we're not getting rewarded in the market. So we've pulled back on the planned up rates at our Limerick and LaSalle stations because the paybacks just weren't there.

So if you look at how we're meeting the challenge, I want to give you some examples of what we're doing for the current challenges and looking ahead. We're both acting on things we can control and on issues that we can influence to maximize our shareholder value. We're evaluating the economic viability of our generating units. On an ongoing basis, we look to optimize and increase their value. If it's from cutting out CapEx, reducing CapEx on some of the nuclear plants or bringing some of the plants to annual refueling cycles, it's a constant review and efforts are underway.

Our nuclear fleet continues to be the best in the business and 2013 was one of our best years on record for capacity, cost and safety. But some of our plants are currently facing headwinds due to the low power prices and the unintended consequences of the current energy policies and as I mentioned the excessive subsidies going to one versus others. So we're not seeing the impact or we are seeing the impact of these subsidies in a mandate that lacks a carbon policy. We have a policy currently that talks about low carbon, subsidizes wind and solar but we all understand what happened in California this year with San Onofre plant going offline. The carbon output increased in the State of California by over 30%, so nuclear has to be part of it. Nuclear contributes more than 60% of our nation's carbon free electricity and is an essential part of the country's all and above strategy going forward.

The first and most basic step in the nation's greenhouse gas reduction is to ensure that current markets and the state and federal policies are keeping existing carbon free generation in place. As I said, unfortunately these

policies in the wholesale energy markets currently do not compensate nuclear assets for the fuel diversity, the reliability and the carbon free generation. And that's why we're advocating for policies that will support and reward clean generation.

But we've talked a lot about policy in the past and it's very hard to drag through a dysfunctional Washington at this point, or it make many in-roads in the states, so although our RGGI efforts in the Northeast have been solidified, we continue to work on the state level. But we can't wait for markets and policies to improve, so we're currently reviewing the assets or the economics of our assets and looking at ways to optimizing them.

We're assessing infrastructure, operational, commercial, policy and legal solutions to enhance their value. These solutions include a long list of things that the team here is working on. It could be long-term contracts, PPAs, we could sell some units out of PJM or other areas. We're looking at transmission build out, significant effort on cost management, operational improvements or at the end of the day if it just doesn't change, we'll have to take the steps to retiring units and that's a strategy where we may have to shrink to grow. We're – we think the nuclear assets are very valuable. We know how to run them better than anybody else. But at the end of the day if we're not compensated for them we'll just have to shut them down.

We've worked hard. We'll still have a – excuse me, we'll still have work to do before we're done on any decisions that will be made. But to be clear, we will shut down facilities where we do not see a path to sustainable profitability.

So switching to how we're investing. We're investing in our business in both regulated and unregulated and we're looking for growth opportunities that are financially accretive. Our business model gives us the flexibility to shift investments from the regulated to the merchant in different commodities cycles

Our utilities are a big investment growth area right now. We're – we are on one of the first shifts of our growth capital investments from merchant to regulated. We've dedicated – in the past we've talked about \$13 billion over the next 5 years, it's up to \$15 billion over the next 5 years or 85% of our growth will be in the utility area.

This is not only needed for reliability, but to meet our customer requirements on continuous operation of our grid through whatever perturbations or storms. So putting technology on to the system to aid reliability is a sound investment we think that will benefit our customers and our shareholders.

On top of this, we're adding another – I loaded that into the \$15 billion. So the investment focus will benefit our customers as I said by restoring from storms or improving services, make our utility stronger. It improves our total value to Exelon and as we had to make the decision early in the year about the dividend, the shift that we wanted to make is that have the utility dividends cover the holding company dividend and that will be done by 2017. So the growth side of the business will be able to plough their cash back in to continue to grow wherever we see the opportunities, if it's in natural gas, if it's in renewables or contracted assets or what other opportunities we see in gas.

So external growth, additional to the – we have [ph] \$1 billion (12:05) to \$2 billion of balance sheet capacity left in case we find unanticipated opportunities to invest. Our scale across the entire energy business allows us to take advantage of these growth opportunities in the power sector but also in the gas sector.

We're able to invest in electric gas, in gas utilities, merchant generation, contracted renewables and natural gas infrastructure. But while we are doing that, we need to continue managing cost in flexibility and finance.

We know that growth alone will not be enough and we must maintain a focus on our cost management as I've discussed and productivity throughout the organization, beyond what've already announced. We continue to look for opportunities to remove operating cost or reduce operating cost and make gains through efficiency with productivity enhancements, technology improvements and other factors.

We'll identify additional savings and keep you informed of our progress in the future. We use our generation portfolio to provide balance sheet strength and financial flexibility. One example of that is our Continental Wind project financing deal that we recently closed and we are looking at ways to replicate that across our other non-core business assets.

So on the policy initiatives, turning to that, the right policies and the right market designs have a potential to create a significant value for our shareholders. We are working with markets, regulators, federal and state policy makers to establish those policies as I mentioned. We have to allow the markets to work. That means stop subsidizing specific generation sources, come up with a policy that you want the end game to be and let the market work.

We need to enable our utilities to have a consistent fair return on the investment. We are accountable to efficiently install the capital and ensure that it provides value to our shareholders, excuse me, our customers, but also it needs to benefit our shareholders for putting their equity into it and we need to reward clean generation including our nuclear fleet.

On the markets, our generators are not properly compensated as I have said for their reliability and the generation that they provide when the markets are not working. PJM, we've been working close with PJM and other stakeholders to improve the operations of the capacity market. PJM has submitted – or committed the management and the Board to submit reforms to FERC in a timeframe that will be implemented by the next auction. We believe these reforms if adopted will likely improve the future pricing in auctions.

In ERCOT, we've engaged with the Texas PUC and other stakeholders on the resource adequacy and other mechanisms that can ensure supplier – the suppliers receive a fair compensation for their assets there but also open it up for those of us that are very interested in continuing to invest in the ERCOT market. We see that as a very strong market going forward.

In New England, we're working with the New England ISO to develop reforms on energy and capacity that will enhance the value of our generation, as we enhance the reliability on the New England system.

At the federal level, as I've mentioned, we're a leading voice against energy subsidies such as the production tax credits, which have created an unintended consequence by distorting the market prices and harming more reliable, clean baseload generation. We are actively engaged with the EPA in rulemaking on clean air, greenhouse gases and water along with all the other stakeholders in the industry.

At the state level, we've been a strong opponent of efforts to subsidize generation. Where we had some successes recently are in New Jersey, Illinois and Massachusetts. We are leaving no stone unturned to build shareholder value.

So the conclusion here – so the markets have been challenged for the last few years, but our situation is not dire. We were disappointed in the last PJM auction, but it's not devastating. We have options and the financial strength to see this through.

We're not sitting on our hands, as I have mentioned, waiting for the recovery. We're taking a hard look at how to optimize the fleet and its value, investing heavily into our utilities, maintaining the operational excellence of all our businesses including the nuclear fleet, enhancing the value of our portfolio by aligning our hedging strategy with our view on the markets. It would not make sense for us to be overselling in NI Hub, Northern Illinois, when we think there is an uptick in the next couple of years. So we are protecting the balance sheet, using other options to make sure that we maintain a strong balance sheet but we do not have to oversell into specific markets.

And we are continuing to oppose generation subsidies and support policies that will support and reward clean generation. The economics of our current environment are harsh, but we have the strength to weather the storm where others may not. Our scale and our depth is our advantage, and our advocacy in the stakeholder process, I think will be a benefit.

Although the markets are tough as I said Exelon's risk profile is asymmetric with much more upside than downside. And we have a strong and deep hand of cards that we have been dealt to play for the future.

So, again, I want to thank everybody for coming and we would like to open it up for any questions and if you could wait till we get our room monitor to give the mic – I told her when she told me her title was room monitor, that if I didn't do well, I was going to be sitting in a chair in the corner at the end of it, but so hopefully you don't see me there for a couple of hours today.

Any questions? And we have the experts here that actually can give you good answers so.

QUESTION AND ANSWER SECTION

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

If no questions – oh, [ph] Vic... (18:53)

A

Q

Hi Chris.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

[ph] Vic. (19:00)

A

Q

You've talked about potentially retiring some of the assets, could you go into a little more detail where those problem or constraint are?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Yeah, we hate to rattle the employees but we need to keep a real balanced view on what the future looks like. We have assets in multiple regions that are economically challenged now or will be in the future as PPAs roll off. We're

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looking at those plants very hard, Clinton station. We brought it down to an annual refueling cycle and for those of who that have been around operations, refueling outages are not fun periods. There's a lot of work, you bring in about 1200 people, you work them hard for 15 to 20 days, you put the thing back together and you come back up, there's a lot of challenges that come around. So doing it once every two years is always much better than doing it once a year, but we get a much more efficient utilization of the uranium on an annual cycle than we do on an every two years cycle. So we're looking hard at Clinton.

MISO does not reward capacity right now and we need some kind of fix in the MISO market. I think we've all read and heard about the tightening capacity in MISO, but they are not rewarding generation to stay in, actually they are pushing some of their merchant generation to bid into PJM which is not productive for us in PJM and not productive for the MISO reliability. So Clinton is one that we look at. Quad Cities is a very good unit. Quad Cities today is profitable, but with future capacity markets and other issues we have to look at our cost basis at Quad Cities.

Quad Cities sits on the seam of MISO and PJM. It is afflicted with excessive wind flowing into the PJM market, crushing the bus prices at Quad Cities and a significant and growing period of time, it's negative prices. So the wind subsidies allow the wind generators to run at negative prices, but the production tax credit rewards them for those blades turning and it's a flawed concept to exist for 20 years, but we think it was the right thing to do to start up the industry.

We have a large and growing portfolio of wind, but if state mandates desire wind to be in the mix then the state mandate should be paid by the individual states. You have 30 states with renewable portfolio standards that are being subsidized by 50 states. The largest subsidies are going into California, but there's significant subsidies that are being dumped into MISO, which is really affecting us in a more balanced, competitive market in PJM. So, that's the fight we have, so we have to look at Quad Cities.

In New York, our assets are in the A zone. There is not a – there is a big basis differential between the J and the K zone in New York. We are looking for ways to try to resolve that and get our power or that basis collapse, but that's a struggle. A lot of investment will have to be made in transmission. And so our brand is safe, reliable, operations. We're known to be one of the best in the world. We cannot cost-cut our way out of this situation. If it does not improve, if we can't cut the capital to make them profitable, we would risk safety and reliability in our reputation.

So, the bottom line is you don't get rewarded for them, we just cut them out and, we'll work with the employee base, we have a lot of assets to move people around to. Albeit it's bad for the country, it's bad for the region and the employment base, the tax base but at the end of the day we have to look at the balance sheet and what's good from the shareholders also. Yes. Over here.

Q

You talked about the threat from subsidized wind, can you talk about solar?

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Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Yes. We believe in renewables. We have a solar business. We have a wind business. We see the solar industry correctly working to drive their prices down, if it's enhancing the technology and the efficiency of the technology or if it's a manufacturing process. So within a few years I think solar is going to become close to parity, if you're looking at the state goals that require solar. So it's a technology, a distributed generation technology that will be around forever and I think will continue to be enhanced.

Our only issue with solar is the rooftop solar methods in some states right now on the net metering process where I think people should have the ability, the option to put a solar unit on their house if that's their desire. But I think there is a real value to the grid that every one of those individuals that are getting that solar unit on the roof of their house – it has to be a fair compensation for the excess energy that goes on to the grid. And today Arizona is -- it's in Arizona today, that's the hot spot but this will move. There's a great advertising campaign that makes it sound like the utilities are old, antiquated, we don't need them anymore. Well, if that's the case, unplug, don't use the grid. And then see how well it works. You cannot use rooftop solar without the grid. So if you're using the grid, you should pay your fair share for the transmission and distribution charges. You have voltage control, you have back up, you have a way that you're putting your stuff to market.

So there is a skewed -- in some states a skewed regulatory recovery mechanism for rooftop solar. And let's be clear, rooftop solar from a levelized cost of energy is the most expensive you could probably build. If you stack up all the subsidies between the ITCs, the solar RECs, the state mandates, it is by far much more expensive than utility scale solar.

So, we believe in it, we're investing in it, we will continue to work with our customers, mostly our commercial customers on installing it. But we need to be fair about the pricing, we need to be fair about the recovery mechanism – it's a story of haves and have nots. So the typical rooftop solar home owner has to have a credit rating of 750 or above.

When they sell their house, they've got to get approval from the leasing company. They're not energy companies. They're leasing companies. They have to get approval from the leasing company to sell their house to somebody else, there has to be a credit check, is this person worthy of being – that's a constraint that I don't think should be put on people. But then that – the campaign says now they're adding value to the grid, but they're not paying for the grid. Those that are paying their share of the grid are the ones that can't afford it. So it's the haves and the have-nots, and it's not a fair system.

So as an industry, EEI, we're advocating for this fix. Hopefully, Arizona we'll hear some good news. And again, if you look at the ads, they say the industry and the utilities are attacking solar. We're all investing in solar. We believe in solar. It's just got to be fair for the consumers.

At some point, there will be significant backlash either by the consumer advocates or by the PUC. So solar polls good. A lot of politicians like to back it because it polls good, but they need to be aware of the unintended consequences of not making people fairly pay for the service they're getting.

Yes, over here?

Q

Can you expand on your comments around the dividend and the utility supporting the holding company dividend by 2017? What do you need to do to get there? What's the risk of achieving that and so on?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

We see minimal risk, but let me ask Jack to jump in and earn his breakfast.

Jonathan W. Thayer

Chief Financial Officer & Executive Vice President, Exelon Corp.

A

Good morning. So, as Chris mentioned, we do see the significant shift in capital spending leading to significant growth within our utility rate base. Over the five-year plan, that's 2014 through 2018, we see roughly 6% annual growth in our utility with corresponding growth in net income.

We will be able to support the dividend, starting in the 2015/2016 period, if we were to allocate a 100% of the earnings from the utility to satisfying the dividend, but as Chris mentioned, given the growth trajectory at utility we'll likely be supporting a good portion of the dividend from the merchant side of the business as we invest retained cash flow and earnings in growing the rate base at the utility side.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

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Other questions.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Seeing none. Again, thank you for coming and we appreciate your attention.

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