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Exelon Corp. (EXC)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Lindsey and I will be your conference operator today. At this time, I would like to welcome everyone to the 2019 Q1 Exelon 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.

Dan Eggers, Senior Vice President, Corporate Finance, you may begin your conference.

Daniel L. Eggers

Senior Vice President-Corporate Finance, Exelon Corp.

Thank you, Lindsey. Good morning, everyone, and thank you for joining our first quarter 2019 earnings conference call. Leading the call today are Chris Crane, Exelon's President and Chief Executive Officer; and Joe Nigro, 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 following our prepared remarks.

We issued our earnings release this morning, along with the presentation, both of which can be found at 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 this 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 the non-GAAP measures and the nearest equivalent GAAP measures.

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

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thanks, Dan, and good morning, everyone, and thank you for joining us today. During the quarter, we achieved success on several key fronts and reached a couple of milestones. First, the U.S. Supreme Court declined to hear the ZEC cases, clearing the last legal challenge at the federal level for the Illinois and New York programs. The decision affirms that states have the right to protect their citizens by favoring clean energy and it is a win for the consumers, policy makers and regulators.

Second, we received credit upgrades from both S&P and Fitch. These upgrades recognize the successful execution on our utility-driven growth strategy and reduction in business risk, while maintaining strong financial metrics.

Third, we reached settlements in New Jersey on the ACE rate case and the infrastructure investment program. These outcomes reflect the continued positive evolution of our partnership with regulators, built on improvement and reliability and customer satisfaction.

Finally, turning to slide 5, in March, we celebrated the seventh anniversary of the Constellation merger and the third anniversary of the PHI merger. Each merger has positively contributed to our strategy of increasing our regulated business mix and providing more stable earnings. Before these mergers, Exelon earned a mix of 28% utilities, 72% generation in 2021. We project that mix will have [ph] plopped (00:03:23) with nearly 70% earnings coming from the utilities.

But through the Constellation merger, we grew our regulated earnings with the addition of BGE and also benefited from the combination of Exelon and Constellation's competitive business, creating an industry leader integrated business that supports efficiently hedging of our plants for capturing incremental margins and cash flows. The PHI merger further advanced our strategy to become more regulated, while creating value for customers and communities we serve.

We are meeting or exceeding all of our reliability merger commitments and customer across the PHI service territory and experiencing record reliability. The frequency and duration of outages have improved at each utility. Customers are out of power with less frequency and are restored to service much faster when out of power. In 2018, Delmarva customers had the lowest frequency of outages. At Pepco, customers saw the fastest restoration time. And customer satisfaction is at an all-time high at ACE, Delmarva and Pepco.

We're also delivering on our promise to be a true partner with the communities we serve. The PHI utilities have contributed more than \$470 million in total economic impact since the merger closed. In 2018 alone, these utilities spent \$313 million with minority and women-owned suppliers, which is between 22% and 29% of each utility's total procurement spend.

Each utility has made investments in workforce development programs, including partnering with the District of Columbia to create the DC Infrastructure Academy. We are also an important community partner for hundreds of organizations in the PHI service territory, contributing more than \$15 million in financial support and volunteering

approximately 85,000 hours since the merger was approved. Because of the improved service and enhanced partnership with our communities, we are building trust in our jurisdictions and are seeing a more positive regulatory environment develop.

Since the merger, we have reached constructive settlements in each of the PHI jurisdictions, including Pepco Maryland and DC, and we've had our first settlement since 1980s. Exelon has delivered on the promises we made to our customers, and the communities and the shareholders when we merged with PHI in 2016.

Turning to our financial results on slide 6, we had a strong quarter. On a GAAP basis, we earned \$0.93 per share versus \$0.60 per share last year. On a non-GAAP operating basis, we earned \$0.87 per share versus \$0.96 per share last year. Joe will cover the drivers in his remarks.

Turning to slide 7, at the utilities, we continue to execute at top-quartile levels across key customer satisfaction and operating metrics. The investments we are making are resulting in improved reliability, which is strengthening the relationship with our customers and the regulators.

We remain focused on helping our customers and communities become more energy efficient, saving energy and money. We have been doing this for years and I'm happy to say, once again, the EPA named all five of our eligible companies, BGE, ComEd, Delmarva, PECO and Pepco as 2018 ENERGY STAR Partners of the Year.

Generation performed well during the quarter, nuclear produced 39.2 terawatt hours of zero-emission electricity with a capacity factor of 97.1%, the best quarter performance in more than 10 years. During a Polar Vortex, where the temperatures were significantly below zero, we ran at full power, keeping families in our markets safe and warm. Exelon power and gas and hydro dispatch match of 97.8% and wind and solar capture of 96.5%, exceeding plan.

Moving on to slide 8, since the beginning of the year, there has been a number of important developments. U.S. Supreme Court upheld the clean – clean energy programs. Illinois is looking to advance its clean energy goals. Pennsylvania is considering adding nuclear to its alternative energy standard. New Jersey awarded zero emission credits. PJM has made its scarcity filing in March with the request approval date by mid-December and FERC's act on fast start energy pricing reforms. These actions recognize the importance of preserving existing resources of carbon-free energy, and addressing the underlying deficiencies in the market.

In Illinois, legislation was introduced that would require the Illinois Power Authority to procure clean capacity for ComEd customers using the fixed resource requirement mechanism that is currently in the PJM tariff. In addition to supporting a course of truly clean energy future in Illinois, the legislation would also ensure that consumers pay less than they do today. The concept of the FRR has a wide support and has been endorsed by the Illinois CUB, the Clean Jobs Coalition and organized labor.

Another piece of legislation has been introduced into Illinois to extend the formula rate. ComEd's formula rate provides tangible benefits to the consumers as well as certainty we need to make investments and improve reliability and resiliency in customer service, while keeping the bills affordable. In the nine years that ComEd has filed the formula rate, we have asked for rate decreases four times. It's a busy legislative season as Governor Pritzker in the General Assembly tackle Illinois' significant budget problems. However, we are optimistic these two priorities can get done this year.

In Pennsylvania, a bipartisan group in the House and the Senate introduced legislation that would treat nuclear equal to other non-emitting resources by adding it to the Alternate Energy Portfolio Standard (sic) [Alternative

Energy Portfolio Standard]. Several hearings have been held in the House and Senate on the bill, but it's not clear the action will be taken in time to reverse our decision to retire TMI.

We also achieved two important milestones for our existing ZEC programs in April. First, as mentioned, the U.S. Supreme Court declined to hear the challenges, the New York and the Illinois ZEC programs, consistent with the resounding decision we received from the District and the Circuit Courts. Second, the New Jersey BPU awarded ZECs to all three units in New Jersey, allowing them to continue to provide zero carbon energy to the state. We are pleased to see the states moving forward with thoughtful energy policy that preserves the rights to chart a clean energy future.

Finally, turning to FERC and PJM, we're pleased FERC acted on a fast start reforms that expand the price saving eligibility for block-loaded resources. FERC has requested that PJM submit a compliance filing by July 31, and we expect the reforms to be implemented shortly after that.

In addition, PJM filed a 206 petition to improve the pricing of reserves, which we have previously referred to as scarcity or ORDC reforms. These reforms, along with baseload price formation, are essential to preserve an effective competitive market in PJM, and we're happy to see the programs being made to address these clear needs.

Turning to slide 9, much of the policy work we've engaged in, including preserving zero carbon generation, we have viewed as necessary to bridge a comprehensive carbon policy, in the past time, not just for the government, but for every business, most particularly, energy business, along with their customers and stakeholders to take action on reducing carbon emissions.


For several decades, Exelon has been positioning itself for a carbon-constrained world and acting as a leader advocating for carbon policy at the state and federal level. We have built the cleanest power generation company in the country. We have divested or retired all of our coal generation, and invested in renewables and increasing our output of our nuclear fleet. As a result, Exelon has produced more clean energy than any other company in the United States by a factor of 2, and out of 9 – every 9 clean megawatts in the U.S. comes from an Exelon plant.

We've avoided 67.8 million metric tons of greenhouse gas, the equivalent of taking 14.5 million cars off the road, through two previous carbon-reduction goals. And we're on track to meet the most recent goal of 15% additional reduction of emissions from internal operations. We're a leading voice in supporting policies and regulations that require reduced emissions and encourage technology changes. And across our businesses, we're working to enable clean energy solutions for our customers and communities.

In 2018 alone, our energy efficiency programs saved customers 21.9 million megawatt hours of electricity, avoiding 9.9 million metric tons of greenhouse gas emissions. We're investing in electric transportation and charging infrastructure at both utilities and Constellation.

Exelon is also involved in grid scale energy storage development to enable faster and greater reliability for the use of renewables. One example of this is through our efforts to launch the Volta Energy, which works for the national labs and research universities to commercialize new technologies. The world is changing in terms of awareness of the scope of climate change and the need for new potential solutions.

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Our customers, our cities and our communities, as well as our employees are demanding clean power, so that is what we intend to provide. We still have a long way to go, but the engagements that we are seeing at the state level affirms our view that these policies will be part of our country's future.

With that, now I'll turn it over with Joe to continue the call.

Joseph Nigro

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

Thank you, Chris, and good morning, everyone. Today, I will cover our first quarter results and quarterly financial updates, including trailing 12-month ROEs at the Utilities and our hedge disclosures. Starting with slide number 10, we had a strong quarter financially. We earned \$0.93 per share on a GAAP basis and \$0.87 per share on a non-GAAP basis, which is at the upper end of our guidance range of \$0.80 to \$0.90 per share.

Our performance in the quarter was consistent with our expectations, including a positive \$0.01 of net benefit around timing of expenses. Exelon utilities delivered a combined \$0.56 per share, net of holding company expenses. Utility earnings were modestly lower than our plan due to O&M timing at ComEd and PECO, which will reverse itself over the course of the year.

Exelon Generation earned \$0.30 per share, outperforming plan. This was a result of some realized gains in our nuclear decommissioning trust fund and favorable timing of O&M. We are reaffirming our full year guidance of \$3 to \$3.30 per share. For the second quarter, we are providing adjusted operating earnings guidance of \$0.55 to \$0.65 per share.

On slide 11, we show our quarter-over-quarter walk. The \$0.87 per share in the first quarter of this year was \$0.09 per share lower than the first quarter of 2018. Exelon utilities less holdco earnings were up \$0.10 per share compared with last year. This earnings growth is driven primarily by higher rate base, new rates associated with completed rate issues and lower storm costs at PECO and BG&E relative to the first quarter of 2018.

Generation earnings were down \$0.19 per share compared with last year. The biggest driver was the absence of \$0.10 per share of ZEC catch-up payments from 2017 due to the timing of the final Illinois ZEC approvals. Generation was also impacted by lower realized power prices.

Moving on to slide 12, as Chris mentioned, we celebrated the third anniversary of the merger with PHI in March. We have seen tremendous improvement in PHI's operational performance, customer satisfaction and relationships with our communities and regulators, which is leading to more constructive outcomes. Given our progress on the commitment of our 9% and 10% ROEs across our utilities and the quarterly variability at the individual PHI utilities, depending on rate case timing, we are now consolidating the PHI utilities trailing 12-month ROEs.

We have also changed the format of this slide to show the relative size of the aggregate PHI utilities when compared to legacy Exelon utilities and the consolidated Exelon utilities. In total, the PHI utilities represent approximately 26% of our total rate base of \$41.2 billion. On a consolidated basis, the PHI utilities earned a 9.3% ROEs for the trailing 12 month. This is a 90 basis point improvement over a consolidated 8.4% from the fourth quarter of 2018. The improvement is due to 2018 distribution rate case settlement at both Delmarva and Pepco, favorable transmission revenue from the higher peak load and true-ups, the roll-off of higher storm costs, and favorable O&M timing at Delmarva and Pepco, which will reverse over the course of the year.

At the legacy Exelon utilities, our earned ROEs are modestly better, largely driven by the roll-off of the March 2018 winter storm costs as well as new rates associated with completed rate cases at PECO and BG&E. Including PHI, the combined Exelon utilities have a 10.2% earned ROE, which is above our 9% to 10% earned ROE target and 50 basis points higher than last quarter. We remain focused on meeting our utility earnings growth target by maintaining the earned ROEs at PHI and sustaining strong performance at our other utilities.

Turning to slide 13, since the last call, the New Jersey Board of Public Utilities approved Atlantic City Electric's settlement agreement, which provides for a \$70 million revenue increase. The new rates went into effect on April 1. In addition, the BPU approved recovery of \$96 million of capital over a four-year period through the infrastructure investment program to improve reliability.

On April 8, ComEd filed its annual distribution formula rate update with the Illinois Commerce Commission, seeking a \$6.4 million decrease to base rate, representing the fourth requested rate reduction under the formula rate [ph] denied (00:19:34). We expect to receive an order in the fourth quarter.

Pepco Maryland filed its latest rate case in January requesting a \$30 million revenue increase, which has been updated to \$27.2 million with the test year update to actuals. The request is based on the continued infrastructure investments to enhance reliability and customer service. We expect to receive an order in the third quarter of this year. More details on the rate cases can be found on slides 21 through 24 in the appendix.

Turning to slide 14, during the first quarter, we invested \$1.2 billion of capital across the utility and are on track to meet our \$5.3 billion commitment for 2019. These investments will improve the reliability and resilient of grid to the benefit of our customers. This quarter, I would like to highlight two projects. The first is the modernization of Pepco's Harrison Substation in Washington D.C. This \$190 million project will renovate aging infrastructure to more reliably serve important loads, including two metro stations. It also expands regional transmission capacity, supporting future load growth.


The other project is the second phase of BG&E's large gas line replacement program in Baltimore that will be recovered through STRIDE capital recovery mechanism. The second phase includes \$732 million of investment and will replace approximately 240 miles of gas lines by the end of 2023. Replacing these lines will improve the safety and reliability of the distribution system. During the first phase of the program, BG&E replaced 208 miles of gas lines. Since the program started in 2014, STRIDE has created 600 fulltime jobs in BGE's service territories.

On slide 15, we provide our gross margin update and current hedging strategy at the Generation Company. As a reminder, our disclosures previously reflected the planned retirement of TMI and include New Jersey ZEC revenues. Since last quarter, total gross margin is flat in every year. In 2019, open gross margin decreased \$150 million, primarily due to lower prices at West Hub, New York Zone A and NiHub.

During the quarter, we executed \$150 million in Power New Business. In 2020 and 2021, respectively, open gross margin is up \$50 million relative to our prior disclosure, primarily on the back of higher power prices at NiHub and New York Zone A, which was partially offset by lower ERCOT spark spreads.

Mark-to-market of hedges were down \$50 million due to our hedge position, offsetting the increase in gross margin, and we executed \$50 million of Power New Business in both years. Our generation to load matching strategy continues to yield positive results.

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We ended the quarter 8% to 11% behind ratable in 2020, and 1% to 4% behind ratable in 2021 when considering cross commodity hedges. Our open position is primarily concentrated in the Midwest and Texas. Given the strength of our balance sheet, we are comfortable with our strategy to hold open market length.

Moving on to slide 16, we remain committed to maintaining a strong balance sheet and our investment grade credit ratings. As Chris mentioned, our work has been rewarded in credit upgrades at S&P and Fitch in the first quarter. S&P upgraded Exelon's issuer credit rating to BBB+ from BBB. In addition, all subsidiaries were raised one notch. According to S&P, the rating upgrades reflect the successful execution of our business strategy, which has reduced business risks while maintaining strong financial metrics. Fitch also upgrade Exelon to BBB+ based on similar reasons.

Looking at ExGen, we're well ahead of our debt to EBITDA target of 3 times. For 2019, we expect to be at 2.4 times debt to EBITDA and 1.9 times debt to EBITDA on a recourse basis.

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

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thanks, Joe. Turning to slide 17, we remain committed to our strategy and are pleased that our consistent execution is being recognized by the rating agencies and others. I'll close on Exelon's value proposition. We continue to grow our utilities targeting 7.8% rate base growth and between a 6% to 8% earnings growth through 2022. We continue to use free cash from the GenCo to fund incremental equity needs at the utilities, pay down debt and fund part of our growing dividend.

We will continue to optimize the value of our ExGen business by seeking fair compensation for our zero-emitting generation fleet, selling assets where it makes sense to accelerate debt reduction plans, and maximizing value through the generation due to load matching strategy at Constellation.

We will sustain strong investment-grade credit metrics and grow our dividend annually at 5% through 2020. The strategy underpinning this value proposition is effective and providing tangible benefits to our stakeholders. We remain committed to optimizing the value of our business and earning your ongoing support for Exelon.

Operator, we can now turn it over for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Greg Gordon with Evercore ISI. Your line is now open.

Greg Gordon

Analyst, Evercore ISI

Q

Thanks. Good morning.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Good morning, Greg.

Greg Gordon

Analyst, Evercore ISI

Q

Two questions. First, can you just give us a little more detail on the status of the bills that relate to energy policy in Illinois? What the process is for moving them to a vote? And I think you intimated that given the pressures on the legislature with regard to other Illinois issues, that there might be a chance that this slips from the regular session to the veto session. So, could you just talk through all those issues, please?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Sure. And as you pointed out, there is a lot of activity in the session right now, as the Governor prioritizes all of his issues. A lot of it's focused on the budget and revenue sources. Those bills are moving and being debated, as we discussed. He also has a priority on achieving a zero carbon generation fleet by the 2020, 2030 timeframe – 2030 timeframe. So, there are numerous energy-related bills to get to that point. Our bill for the FRR, there's one that's Path to 100. And then there's one that's the Clean Jobs Coalition. So, we're in the process right now of negotiating with all the bills, so we can come together and provide the legislature with a coalition that agrees on many things right now, just working through the details.

We hope to be done. Meetings are constant. I've met with the leadership of both the House and Senate, talking about what we need to do, and them showing their support for us going forward. So, we're just going to keep working on it, as we always do. If it's not done in the regular session because of the other priorities, we will have it positioned to move through during the veto session. That's the generation bill.

The other bill in Illinois that will affect Exelon is the extension of the ComEd formula rate for 10 years. That bill is proceeding. We've been able to work with stakeholders to gain support and recognition. As I mentioned, out of the nine past filings that we made with the formula rate, we've had four rate reductions. So, it's very balanced for the consumer. It's very balanced for our investment strategy, and we are able to do so in a predictable way to serve our customers. So, that's Illinois.

Pennsylvania – yeah.

Greg Gordon*Analyst, Evercore ISI*

Q

Thank you. Sorry. You might as well cover Pennsylvania, too, I interrupted you. I apologize.

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

A

I figured that was coming so we were going to do it anyways. So, Pennsylvania, as you know, we've been working with the other nuclear operators there to create an alliance to continue and allow those assets to compete in – with the other non-emitting assets. The bill continues to garner support and will continue to work through that. As we've told folks, we need clarity on this by the end of May or we're going to have to make the final steps and shut down. We won't be able to adequately design, procure, manufacture fuel for continued operations without that certainty and would not want to make that investment without that. So, we'll continue working on it. And as you can see, the Governor has shown recognition that he wants to have a low-carbon future for the state, and all recognize that that cannot be done with the current technology without including the existing nuclear assets. So, we'll work on that one and combine with the Illinois effort.

Greg Gordon*Analyst, Evercore ISI*

Q

Thanks. One other real quick one for Joe. Just looking at slide 19. It looks like the free cash flow profile, mainly at the utility portfolio, is lower than you projected – lower now for the year than you projected at year end by \$300 million or so. What's the cause of that, because you didn't – it doesn't look like you changed your overall guidance for the long-term cash flow profile of the company?

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

A

Yeah. Greg, you're correct, the variance versus our Q4 disclosure is \$300 million lower. It's being driven by increased working capital at the utilities and we're funding that with commercial paper. I think it's important to note, though, from a GenCo perspective on a cash flow profile basis, we're in line with the forecast that we've provided you on the fourth quarter call. I mean, I think that's an important element.

Greg Gordon*Analyst, Evercore ISI*

Q

Okay. Is that working capital increase sort of a permanent structural issue or is that related to things like storms or other things that might slip in future years?

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

A

Yeah. It's the latter. It's more just the ongoing business itself. And we had some favorable weather at points in the quarter and we took advantage of that from a work basis perspective.

Greg Gordon*Analyst, Evercore ISI*

Q

Okay. Thank you.

Operator: Our next question comes from the line of Julien Dumoulin-Smith of Bank of America. Your line is now open.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Hey. Good morning, everyone.

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

A

Good morning.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

So, just to follow-up a little bit on Greg's question. Can you just elaborate a little bit on the scenarios around capacity auction participation, particularly if it happens in August? And I'm thinking that given your commentary in the prepared remarks around the timing of Illinois legislation that it'd be difficult to implement any full FRR or anything else coming out of this Illinois legislation in time for the next upcoming capacity auction.

So, I suppose there's a litany of scenarios. How do you think about them, particularly if FERC does indeed act around something else, say, a partial FRR, for instance?

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

A

So, we put our input into FERC that we believe it's very inefficient to execute an auction when, with the previous FERC ruling – yeah, for PJM to execute an auction in the August timeframe with the previous FERC ruling, we actually need to get guidance from FERC on what the construct should be. So, we think it should be an April timeframe. But FERC feels – PJM feels like they're compelled to run forward. And hopefully, we'll hear something from FERC to clarify PJM's letter requesting clarification.

The most likely scenario for an FRR in Illinois would be the 2023 auction timeframe from everything we're looking at. We need to get the legislation passed. We need to have the IPA who we've been working with, the Illinois Power Authority, be able to build a construct, to be able to run it. That estimate is aggressive on our side by about eight months. Our folks have been in communications with the IPA to see how reasonable that is. And so, we'll continue to work down that path. But to run an auction, it's going to be potentially rejected without a clarification, does not seem like the most efficient use of all of our resources at this time.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Maybe even if it is delayed into 2020, and that is for the 2022 auction, how do you think about the choices before you?

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

A

Kathleen, you want to cover it more?

Kathleen L. Barrón*Senior Vice President -Government and Regulatory Affairs & Public Policy, Exelon Corp.*

A

Sure. Hey, Julien, it's Kathleen. As Chris said, we do know that the FRR bill, once enacted, will take a period of time to implement. The IPA has to write the rules, the ICC has to approve them, then the IPA has to conduct a procurement. And so, if the auction is not delayed, there clearly is not enough time for that to occur before the auction, if it happens in August. If it happens next April and the bill is enacted this spring, there would be enough time for it to be implemented by – let's say the auction's delayed to next April. And then the big wildcard is what if the – we don't know what FERC is going to do and we don't know exactly when the coalition that Chris mentioned, together with the other clean energy packages, will come together in Springfield. So, we can't really speculate on what would happen, because we have a couple of variables that are just unknown at this time.

Julien Dumoulin-Smith*Analyst, Bank of America Merrill Lynch*

Q

All right. Fair enough. And then, just to follow-up on the business risk improvement and the credit side of the equation. Can you comment a little bit more about where you see that going over time in terms of added latitude from FFO-to-debt perspective and just where you would like to see the credit rating over time? I'm just, perhaps, following on some of the recent improvements.

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

A

Yeah, Julien. First of all, we're happy with the upgrades by both S&P and Fitch and we continue to work to stabilize the earnings and the cash flow of the company. And we talked about how we're transitioning to the earnings and cash being driven from the much more regulated outcome and we're really focused on that. And we'll continue to manage accordingly and continue to stay close – work closely with the rating agencies.

Julien Dumoulin-Smith*Analyst, Bank of America Merrill Lynch*

Q

Okay. Great. Thank you all very much.

Operator: Our next question comes from the line of Steve Fleishman with Wolfe Research. Your line is now open.

Steve Fleishman*Analyst, Wolfe Research LLC*

Q

Yeah. Hi. Good morning.

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

A

Good morning.

Steve Fleishman*Analyst, Wolfe Research LLC*

Q

So just, I guess, on Pennsylvania, if obviously something needs to get done there by the end of May, to save Three Mile Island, but if it doesn't get done by then, does that – I mean, could something come back later on for the other plants or is it – how should we just think about that?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

We don't plan on stopping and the coalition doesn't plan on stopping if the TMI deadline is past. There are other critical assets in the state that need to be recognized for the Governor's low carbon future. And so, we'll continue to work as hard as we are right now after the end of May for the other reactors in the state. So, you've got eight other reactors that are very critical, that are highly reliable. But their environmental benefits cannot be replaced with technologies available today without any significant cost. So, we'll continue to work on it and we believe it will end up successful at the end.

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Okay. Thank you.

Operator: Our next question comes from the line of Stephen Byrd with Morgan Stanley. Your line is now open.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning. I wanted to...

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Good morning.

Joseph Nigro

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

A

Good morning.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

...just drill into the Illinois Clean Energy Progress Act a little further. I'm thinking through the procurement process, and I've read through the legislation, but I'm trying to understand the procurement process in terms of the clean bundled capacity. Is it possible to talk a little bit more about the generation that would be eligible, the mix of energy that would be procured? I'm thinking about zero carbon versus renewables. Just to make sure I understand the nature of the clean bundled capacity that's going to be procured under this legislation, if it passes.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Kathleen, do you want to go through that?

Kathleen L. Barrón

Senior Vice President -Government and Regulatory Affairs & Public Policy, Exelon Corp.

A

Yes. Thank you, Stephen. The way that we have envisioned this is that the state would be able to conduct a clean energy procurement, as you said, and that any zero carbon resources to be allowed to compete to provide that capacity. And as you know, the bill is not specific about the exact timetable or other details that we believe are important, including how prices will be overseen by the IPA.

And the reason for that is that – the reason the Future Energy Jobs Act was so successful is it brought together a number of parties together towards a common future. And what's exciting about this is that this FRR concept is integral to all the other clean energy bills that are being considered right now, because everyone appreciates that. It's that exact authority, letting the IPA conduct a clean energy capacity procurement and then having the ability to set its course towards a zero-carbon future will give it more flexibility than it has under current market rules where every asset gets the same capacity payment, whether it's emitting or non-emitting.

So, we have left some room to have that discussion among other stakeholders to make sure that we have the right group who are supporting it. And as Chris said at the top of the call, between the Clean Jobs Coalition including this in their bill, the consumer advocates see the tremendous benefit associated with this, we think that's the winning combination.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

That's extremely helpful. Just as a follow-up there. In terms of the state's overall energy mix in terms of clean energy versus fossil, I know there's an objective to move towards clean energy over time. What would that energy mix broadly look like over time? How should we think about that evolution in the state?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

So, you're starting off right now with 60% of the generation statewide being zero-carbon emitting. 90% of that statewide is nuclear. The concept that Kathleen talked about is we would – in the ComEd zone, currently, we can account for 100% carbon-free. But we would have a transition period where you would have the carbon-free assets bidding in at a greater percentage each year or being taken as a greater percentage each year, as you build into 2030, when the procurement would become 100% carbon-free. And those details – the finite details there will have to be worked out, but that's the concept.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

That's super helpful and that's all I had. Thank you.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Sure.

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

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning, guys.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Hey.

Jonathan Philip Arnold*Analyst, Deutsche Bank Securities, Inc.*

Q

Could I just – just coming back to Illinois and the discussion about timing. If I understand you correctly, the ability to implement the FRR for the next auction, should the next auction happen in April, that would only be the case if it passes in the spring, am I right about that?

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

A

Yes.

Jonathan Philip Arnold*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And so to that, I mean, Chris, what exactly are you saying about the spring session? You said you were optimistic in your prepared remarks about this year. And I just wasn't clear in the previous answer if you're saying you think we're more likely in the veto session or do you think you're still kind of in play for the spring, depending on how things go?

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

A

We're working with the coalitions as hard as we can to have something presentable to the – that the legislature supports to move into spring. But what I've cautioned in our road shows and on the calls previously, there's a very aggressive legislative agenda in Illinois this spring. They're talking about a graduated tax legislation that is needed to pass for a constitutional amendment and the 2020 election; the work on legalization of recreation marijuana; the work on the gambling and the sporting issues to continue to increase revenue. Those are the top-three priorities. We come after that. We need to be ready to be able to tell our story, communicate, and have that coalition that we're building, endorsing where we're heading. But we need to be realistic. We do think if it doesn't happen in the spring, we'll be ready to move it in the veto session in the fall.

Jonathan Philip Arnold*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Great. So, you're not saying it's impossible. You're just making us aware of the priorities and to fall back on the fall.

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

A

Right.

Jonathan Philip Arnold*Analyst, Deutsche Bank Securities, Inc.*


Q

Okay. And then, just one other thing I wanted to ask, on the slide 10, you call out the NDT realized gains as one of the driver in ExGen versus guidance. But it doesn't show up as a factor in the waterfall. So, any chance you guys could quantify that piece and then sort of explain the discrepancy there?

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

A

Exelon Corp. (EXC)
Q1 2019 Earnings Call

 **Corrected Transcript**
02-May-2019

Yes. In the waterfall, you're looking at a year-over-year change, and the NDT gains in each of the years was roughly the same.

Jonathan Philip Arnold
Analyst, Deutsche Bank Securities, Inc.

Q

Okay.

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

A

So, there would be no delta on the waterfall.

Jonathan Philip Arnold
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Roughly how much, Joe, are you willing to share?

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

A

\$0.02 a share.

Jonathan Philip Arnold
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, great. Thank you.

Operator: That is all the time we have for questions today. I will now turn the call over to Chris Crane, President and CEO of Exelon, for closing comments.

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

Thank you all for participating in the call today. I think we're off to a very good start for the year. And so, with that, we'll close the call out, and thanks again.

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

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