

26-Oct-2011

Exelon Corp. *(EXC)*

Q3 2011 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Cassandra and I will be your conference operator today. At this time I would like to welcome everyone to the Exelon Third Quarter Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

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

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### Stacie Frank

*Vice President, Investor Relations, Exelon Corp.*

Thank you and good morning. Welcome to Exelon's Third Quarter 2011 Earnings Conference Call.

We issued our earnings release this morning and if you haven't received it, the release is available on the Exelon website. The earnings release and other matters we will discuss in today's call contain forward-looking statements and estimates that are subject to various risks and uncertainties, as well as adjusted non-GAAP operating earnings. Please refer to today's 8-K and Exelon's other filings for a discussion of factors that may cause results to differ from management's projections, forecasts and expectations, and for a reconciliation of operating to GAAP earnings.

In addition, during the call we will be discussing the proposed merger of Exelon and Constellation Energy. Today's discussion is not a substitute for disclosures in the definitive joint proxy statement that was mailed to shareholders on or about October 12.

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

Leading the call today are John Rowe, Exelon's Chairman and Chief Executive Officer, and Matthew Hilzinger, Exelon's Senior Vice President and Chief Financial Officer. They are joined by several other members of Exelon's senior management team who will be available to answer your questions.

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

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### John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

Thank you, Stacie. Our operating earnings of \$1.12 beat our own expectations at the upper end of the range by a couple of cents and beat your consensus by \$0.03. We are very proud of having achieved that because in the third quarter we were haunted by intense storms. As you all know, we had a hurricane in the east and we had one month with the most severe repetitive storms that I have ever seen at ComEd.

Matt will discuss the storm costs and restoration performance in more detail, but just let me say that at ComEd, Frank and Anne's ability to get the troops out again and again to get extra troops in to deal with repetitive storms

was really remarkable and the preparation that Dennis O'Brien and Craig did for the hurricane was really exceptional.

PECO was one of the first utilities to have all of its customers back and did it with absolutely seamless public relations, so it was tremendous performance. Our nuclear organization continues to spend at world class levels. We had a capacity factor of 95.8% in the third quarter.

Now the stand out driver, the thing that made our ability to recover all of those storm costs in the same quarter was our strong performance in Texas. Due to the extreme heat, higher demand, we had on peak prices in the ERCOT north zone of \$107 per megawatt hour. We had some hours as high as \$3000 per megawatt hour.

Our units generated 2.4 billion megawatt hours of electricity, which was an increase of 20% over last year. The higher prices in the spot and the day ahead markets and the open generation linked in our portfolio enabled us to gain about \$0.10 per share in the third quarter from our Texas operations. Congratulations for this are due to Ken Cornew and his power team for how they managed the open position and Chip Pardee and Sonny [ph] Gard (5:13) for making the units perform when we needed them. This was just a good news story for Exelon, and it shows how different pieces of our system can contribute when they're really needed.

Based on our performance to date, we are reaffirming our 2011 full year earnings range of \$4.05 to \$4.25, Madame Frank has allowed me to say we expect to be comfortably in that range. I would say damned comfortably within that range. Matt will cover our financial performance in more detail in a few minutes but let me first give an update on the Constellation merger, our Solar acquisition and what's going on at EPA.

So far all the formal benchmarks are on track for an early first quarter close of the merger. We have mailed our proxies and scheduled our shareholder meeting for November 17. We appreciate the support of the transaction that we have received from so many of you and the earlier you cast your votes in support of it, the more momentum we will have. Our regulatory approvals are progressing nicely. We've made progress at both FERC and DoJ and with the PJM Market Monitor, the key proceeding remains the Maryland Utility Commission approval and our negotiations with the governor's office in Maryland.

In order to address the concerns raised by the PJM Market Monitor, we filed a settlement agreement committing not to sell the plants we agreed to divest to other significant market participants in PJM. We don't think those people's own lawyers would have let them bid anyway, so we don't believe this concession comes with a significant cost. We are very pleased that we have everything worked out with the Market Monitor. This is one of those benchmarks we've been looking at to make certain that we don't have the problems we had in New Jersey five years ago.

We have received word from Massachusetts that no further approval is required. We expect an order from the New York commission next month and in Maryland hearings before the PFC begin next week.

We have made a number of additional commitments in our rebuttal testimony and we have refused to make some of the commitments which we have been asked to do. We are very happy to have a live negotiation with Maryland officials, but we're not going to give away the real value in this transaction. We believe we can make this work for you, our shareholders, and for the customers in Maryland and we are hard at work convincing folks in Maryland that that is so.

Turning to the Solar acquisition, we announced that we had acquired Antelope Valley Solar Ranch One from First Solar. This is a 230 megawatt utility scale installation in Southern California. It will be fully operational by 2013 and we have a 25-year PPA with PG&E for 100% of the output. DOE has provided a loan guarantee for \$646

million of the total \$1.36 billion investment. We are taking investment tax credits on the project and we'll also get federal bonus depreciation for assets placed in service by the end of '12. Putting all these cash flow benefits together, we expect to recover our initial investment by 2015.

Once complete, Antelope Valley will be one of the largest photovoltaic projects in the world. This is another example of working within our Exelon 2020 plan to bring low emission, low carbon generation to the economy. With our tax capacity, we were able to do that without sacrificing our financial requirements.

Let me turn briefly to the EPA's regulatory calendar. As you all know, the administration has directed EPA to put ozone regulations on a slower track and we expect a new ozone standard to be proposed in 2013. At the same time, the administration has backed EPA's work on the Cross-State and Air Toxics rules for power plants. While EPA has indicated it will take another month to release the final air toxic rules, we see their careful attention to detail as a good thing. The President has made it clear that he doesn't intend to abandon the effort to regulate hazardous air pollutants like mercury.

Despite the passage of the TRAIN act in the House, we do not believe a Congressional effort to suspend [ph] the EPA's (11:17) work will ultimately pass both houses and we do not see how it could sustain a veto if it did.

As you know, EPA recently proposed modifications to the Cross-State rules; we think that's a good thing, not a bad thing. They are obviously trying to eliminate cases where the rules had unintended consequences for that. So we continue to believe that Exelon will see the market benefit from additional EPA regulation that we have been discussing for some time.

But what's more important is we are already seeing the actions that we really care about. The last PJM auction resulted in over 1,800 megawatts less coal bidding than before. About 7,000 megawatts less coal capacity cleared the auction. To-date, about 10,000 megawatts of coal-fired capacity in PJM has been announced for retirement. We have revised our estimate upward from 10,000 to 11,000 to be retired to about 15,000 megawatts retiring over the next few years in PJM. This is partly due to the pending environmental regulation and partly due to the fact that many of these units simply aren't economic at today's natural gas prices and with today's low load growth.

So, we continue to think the market will improve and our views on this are supported by increasing spark spreads and the general power market behavior that we have seen; and Ken Cornew is with me today and will be happy to discuss that in more detail later.

Now, let me just comment on a couple of other things. First, the NRC continues to take a careful and thoughtful and decisive response to the events in Japan at the Fukushima plants. The staff has evaluated the findings of the task force and presented a prioritized action plan. The Commission recently approved the staff's near terms actions.

The Tier1 priorities include reassessing policies, procedures and tax guidelines. We expect additional requirements requiring hardened vents and spent fuel pool instrumentation, as well as more back up equipment for station blackout response. While these Tier-1 requirements will be handled decisively on a short time line, there will be an opportunity for industry input. We believe the NRC is handling the Fukushima event in a very responsible manner.

Now, turning gears, we are actively involved in the AEP Ohio and Duke Energy Ohio rate and marketing cases. And in this case neither of these companies was enthused about how much capacity was supposed to go to market. We have intervened strongly, making it very clear that we didn't wish to impair either company's ability to recover

its current investments, but at the same time making it clear that we wanted future investments judged by market standards.

We have achieved settlements; we have both AEP Ohio and, Joe, is the Duke one done now?

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## Joseph Dominguez

*Senior Vice President, Federal Regulatory Affairs, Public Policy, & Communications, Exelon; Senior Vice President, State Governmental Affairs, Exelon Generation, Exelon Corporation*

It is.

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## John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

We have a settlement with Duke also. Not only does this create an opportunity, a market for some 70 million megawatt hours of electricity, I view this is one of the most important steps forward for competitive markets in the past decade. As you all know, in the late '90's, it seemed like everything would be competitive, and then after Enron things rolled back. Well here we have cases of utilities that have been strong advocates of competitive – of regulated monopolies, agreeing to a larger percentage of market participation. I think that's a very good thing indeed and Joe Dominguez and Scott Brown and Delia Stroud of our team just did a tremendous job working on these things in a way that wasn't possible for the other utilities, but was definitively pro-market.

Closer to home in Illinois, we watched Senate Bill 1652 and the accompanying trailer bill on an hourly basis. The trailer bill passed the senate yesterday by the required majority to overturn the governor's veto. The trailer bill passed out of house committee this morning. By vote, I think 17 to 1 or 16 to 1. We believe both bills will be presented to both houses in the next day or two, but you'll know when they pass as soon as we do.

Frank Clark is on the phone and so is Joe Trpik and they can talk to you in more detail about these, but I think this is a remarkable effort by the legislature to both try to improve the electric service in Illinois and to do so in a way that's fair to ComEd and Ameren. I'm very pleased about this work.

So just to finish off and turn it over to Matt. Again and again we find a way to deliver earnings. And I think we are on track for a very good year at Exelon and there is no part of the company that hasn't made a contribution. As you all know, Tom Terry's tax work has been exceptional this year, but all of the basic units are pulling together and we're giving you results. So with that, Matt.

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## Matthew F. Hilzinger

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

Thank you, John, and good morning, everyone. This morning I will review the operating results for the quarter in more detail and share a few thoughts on power market performance and cash flow. As John mentioned, Exelon delivered operating earnings of \$1.12 per share this quarter, a penny per share better than the same period prior year.

Moving to slide nine, generations operating earnings are up \$0.04 per share this quarter compared to last year, largely due to improved portfolio and market conditions, which reflects PECO's transition to market at the beginning of the year and our third quarter Texas performance.

As you can see on slide 10, we are near our ratable hedge targets for 2012 and 2013. Although we slowed down the pace of our hedging this quarter, we continue to make sales and we're able to benefit from the higher pricing we

saw periodically through the quarter at the West Hub and NI Hub. We attribute the higher pricing primarily to two factors. First, the market's reaction to the Cross-State Air Pollution rules; and second, additional heat rate expansion at the West Hub and NI Hub consistent with historical levels at similar natural gas prices.

On the right side of this slide, you can see that prices increased following the release of the Cross-State Air Pollution rule in early July and increased again when some limited amount of emission allowances began trading in early September. Those few trades cleared at prices more than double the EPA price of approximately \$1,100 per ton. Since then, the EPA has modified to save emissions budgets and we are currently seeing 2012 SO<sub>2</sub> emission markets quoted at \$700 to \$1,100 per ton, which at or below the EPA's expectations.

With respect to heat rates, NI Hub heat rates continue to build on the improvement we saw earlier in the year and both NI Hub and West Hub heat rates expanded by approximately one point during the quarter for 2012 and 2013, which were supportive of higher prices as natural gas prices remained low. You may have also noticed that our expected generation in the south and west region is up since our second quarter across all years. As a note, we are now including the expected generation from Wolf Hollow and Antelope Valley Solar Ranch, two acquisitions that we completed during the third quarter.

Turning to comment on slide 11, operating earnings for the third quarter of 2011 were \$0.17 per share compared to \$0.18 per share last year. Incremental storm costs were up \$0.06 per share this quarter compared to last year due to a very busy summer of storms. ComEd crews managed an unprecedented total of 10 major storms in close succession this summer including the July 11 storm that we mentioned during our second quarter earnings call, which affected nearly one million customers. In each instance, ComEd's restoration performance was commendable under very challenging conditions.

Moving now to PECO on slide 12, operating earnings were \$0.16 per share, which reflect a \$0.02 increase in incremental storm costs versus last year, due to Hurricane Irene. As many of you experienced directly, Hurricane Irene caused extensive flooding and wind damage and interrupted service to nearly 7 million customers in 14 U.S. states. About 500,000 of the affected customers were in the PECO service territory.

What set PECO apart during the aftermath of Irene was the extraordinary job of restoring service to 99% of their affected customers within 72 hours? PECO management proactively mobilized 1,000s of employees, contractors and workers from other regions, including ComEd before the storm hit the service territory, which enabled the immediate and effective restoration response.

With respect to load for ComEd and PECO, total weather normalized electric deliveries are down for the quarter compared to the prior year at ComEd and are essentially flat at PECO. The slowdown in growth in the economy is weighing on the electric demand in both regions. Almost every economist we watch has reduced their U.S. gross domestic product growth expectations for this year, which shows that they are not expecting the economy to gain a lot of momentum in the near term.

Based on our year-to-date performance and a decline in our expectations for the fourth quarter, we are modifying our full year load expectations. For 2011 we are now projecting a decline in load from last year of 0.6% at ComEd and a decline of 0.5% at PECO. For details regarding our load results and outlook, they can be found on slides 28 and 29 in the appendix of today's presentation.

On slide 13 you'll find our updated cash flow projections for this year. During the third quarter, based on new IRS guidance issued on August 19, ComEd and PECO can immediately deduct expenses associated with certain repairs which will reduce their tax liabilities and generate an additional 300 million of cash from operations. We expect to receive about approximately \$250 million this year and \$50 million in 2012.



As John mentioned we will fund Antelope Valley Solar project with a combination of a federal financing bank loan, which was guaranteed by the Department of Energy, cash on hand and other short term debt. Interest rates on the loan will be fixed at an attractive spread of 37.5 basis points above U.S. Treasuries of comparable maturity adding to the financial attractiveness of the project. Maintaining a strong balance sheet and identifying and executing value-added strategies, has positioned us to end the year with strong cash and with strong credit metrics. For yearend we are projecting FFO to debt of 47% at ExGen and Holdco, which is well above our 30% to 35% target and gives us flexibility heading into the next few years to manage the changes in our generation margins.

Before I close I'd like to touch on a couple of additional items starting with pension on page 14. At the end of the third quarter our pension was funded at 83%. Two significant factors that impacted our funded status are discount rate and asset returns. The discount rate is used to determine our pension obligation and pension costs for the following year and is determined at December 31 of each year, and is based on the yields of long-term high quality corporate bonds, which we can't control. However, we can and have influenced the asset returns generated by our portfolio based on our investment decisions.

In 2010, Exelon implemented a liability hedge strategy and rebalanced the portfolio to a less equity concentrated asset allocation. Our investment strategy has resulted in significant outperformance of our plans relative to the S&P 500. The \$2.1 billion pension contribution in January in conjunction with our liability hedge strategy has in large part reduced the impact of lower discount rates on the pension unfunded status costs and contributions. As a result we do not currently anticipate substantial changes to our planned 2012 pension contribution. Consistent with the prior year we will provide our latest 2012 pension contribution projections and sensitivities at EEI in a couple of weeks.

On October 14 we received an order from the FERC on our incentive and formula rate filing for the RITE Line transmission project. FERC approved an 11.43% return on equity without hearing. The rate includes adders for our RTO membership and for projects risks and challenges. In addition the order grants 100% CWIP and abandonment recovery and regulatory asset treatment for preconstruction costs.

All incentives are subject to PJM including the RITE Line and its Regional Transmission Expansion Plan known as RTEP. We plan to move forward with PJM's RTEP process by participating in the stakeholder process currently underway to assess modifications needed to the existing RTEP requirements to address FERC order number 1,000 and policy-based transmission expansion.

Finally, when we present at EEI in a couple of weeks, we will introduce the status of our 2014 hedge disclosure, but due to our pending merger with Constellation, we will not be introducing 2012 earnings guidance.

In closing, we delivered another quarter of strong financial results and remain on track to deliver earnings solidly within our earnings guidance range for the year.

And with that we are ready to take your questions.

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**Stacie Frank**

*Vice President, Investor Relations, Exelon Corp.*

Cassandra, we are ready to take questions.



## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question comes from the line Greg Gordon from ISI Group.

Greg Gordon

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

Thank you.

Q

A

Hi, Greg.

Greg Gordon

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

Good morning. Gentlemen, when you look at what happened in Texas, obviously you had a big benefit from the heat wave, the \$0.10. I think it appears that your open gross margins reflect, I think in part higher results going forward from Texas just given how tight that market's become. Is that true? And can you give us some sense of whether you think there was a structural repeatability to the type of option value you retain there and how that fits into the industrial logic of the merger?

Q

A

Stacie and Ruth Ann are not present, but other than that I am going to defer it to Ken who is the gentlemen to answer that.

Kenneth W. Cornew

*Senior Vice President, Exelon Corp.*

Hey Greg, clearly as you can see in our hedge disclosure, the increase in heat rates in Texas has added value in our open gross margin. In addition to that obviously, we've picked up the second half of the Wolf Hollow plan, which we had in first half PPE and we have a solar facility there picking up some generation. So about half of its increase – half of the increased generation in our hedge disclosure represents the increased dispatch on our plants, and half are the new acquisitions. And Texas is the kind of market that is set up for this kind of volatility if you have supply demand equilibrium driven by either longer term supply and demand fundamentals, or in some part in this case, extreme weather, extreme drought that caused the conditions that we saw in August and somewhat through September.

A

So the heat rates picked up to a point where they represent more value, option value for peaking assets. I think this is something that can continue obviously driven by many of the fundamental long-term drivers we always discuss, as well as weather. But this is an indication that as you get closer to equilibrium, you will see more power volatility and see higher value for the kinds of assets that we have in Texas.

From our retail business perspective, we like the retail business, the retail business is the most effective way for us to find hedges for our portfolio that's designed to serve retail load. We have that in large part in the Mid Atlantic, we have it in Texas with our mid merit and peaking assets. So this in no way changes our perspective on what the

value of a retail business and load following in a portfolio can do for you. We just don't like to sell it when it's not valued fairly in the market and we will sell it appropriately when it is valued fairly in the market.

**Greg Gordon**

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

Great.

Q

**John W. Rowe**

*Chairman and Chief Executive Officer, Exelon Corp.*

I don't think we see any consistency coming out of these Texas prices, but on the other hand, as Ken said, the closer Texas gets to equilibrium, the more frequently we should see these periods of high prices.

A

**Greg Gordon**

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

Okay. I have two other questions. The first is, in Maryland I know you're currently negotiating – trying to negotiating a mutually beneficial outcome. It seems like the biggest area of dispute is your willingness to build 25 megawatts of renewables and their desire to have several hundred megawatts of renewables. What do think the most likely sort of mutually constructive outcome there might be?

Q

**John W. Rowe**

*Chairman and Chief Executive Officer, Exelon Corp.*

Well, it's got more dimensions than that. I think the Public Utility Commission's RFP on capacity suggests that it has some interest in a large number of megawatts produced in the most economic play whatever that is, and that means probably gas. The governor's office is clearly interested in more renewables. And so the negotiation has to be designed to achieve a Pareto optimum position between a number of different perspectives. I do think you have your finger on it. I think an ultimate settlement requires more renewables.

A

**Greg Gordon**

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

Okay. And my final question, maybe this is more up yours and Bill von Hoene's alley since he is on the board of NEIL [Nuclear Electric Insurance Limited], but what is your perspective on what's going on at Crystal River 3 with the significant delamination event there as it pertains to sort of introspection on your part on the care and maintenance of your units as they age?

Q

**John W. Rowe**

*Chairman and Chief Executive Officer, Exelon Corp.*

That I – you've got me, you got Bill Von Hoene, you've got Joe Grimes, and Joe I'm going to kick this off, but I think you're going to have to pick it up from Bill and I, because there are those who do not think two lawyers are the best people to opine on containment integrity. But the real message for us is any time you have to make a hole in the containment, do it with exquisite care and be very, very careful about what you're doing. Also go into a containment like that rarely is possible, but Joe would you pick up on that please.

A

**Joe Grimes**

*Senior Vice President, Engineering and Technical Services, Exelon Corporation*

A

Yes, John we had no plans in our near term planning scope which would have us do any concrete cutting on any of our structures similar to a containment. We are continuing to closely follow the activities associated with the concrete crack indications and we don't currently have any concerns for our facilities.

John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

Bill, do you want to add anything?

A

William A. von Hoene

*Executive Vice President-Finance & Legal, Exelon Corp.*

The only thing I would add Greg is that as you know the claim is under consideration at NEIL currently and there has been no determination as to how we have to handle it, and that will be forthcoming.

A

Greg Gordon

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

Thank you, gentlemen.

Q

**Operator:** Your next question comes from the line of Jay Dobson from Wunderlich Securities.

James L. Dobson

*Analyst, Wunderlich Securities, Inc.*

Good morning.

Q

John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

Morning, Jay.

A

James L. Dobson

*Analyst, Wunderlich Securities, Inc.*

John, I was hoping a follow-up on the last question regarding Texas and understanding that operationally that was just a fantastic result and the folks that operate deserve a lot of credit. But as we look out to next year you would be assuming the Constellation merger has closed, you'd be operating from at least a neutral and probably a short position rather a long position. And I'm just wondering how, as you look forward, your comments regarding retail. How are you thinking about these tightening markets in a retail context both strategically but then also as you frame up and prepare for the consummation of the merger, how you think about hedging particularly in Texas tactically, understanding that you will have a large short position you will be taking on your books?

Q

John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

We are strategically somewhat less comfortable with shorts than Constellation has been. We believe one of the great virtues of the merger is it puts their retail marketing capability with our generations, and we like that in Texas as in other places. Ken Cornew, who will be heading the whole trading chart for the combined company will be working with both Chris and Mayo to try to come up with a conservative, adequately hedged approach to handling places where we have more load than generation.

A

I think the real difference is that learning, as we all have, from the last nine months, we probably hedge a little sooner than Constellation has historically or a little more completely. In other words, we take the tail out of a little further. It was possible to do that; indeed, Ken was able to sell some power at very high prices from our fleet in the wake of the heat and then buy it back a few weeks later at cheaper prices than he could produce it for.

So to us it's a matter of learning from the whole thing. We believe Constellation will turn out to have had some losses in Texas. Ken's last guess is that they are smaller than our gains but we don't know yet, and you'll find that out in the Constellation's earnings call. What's really important here is the two things are stronger together than separately and we're going to impose a conservative edging discipline on the whole. Ken would you like to add to that?

**Kenneth W. Cornew**

*Senior Vice President, Exelon Corp.*

A

Just a couple of comments, Jay, to add to that. We do have, when you combine the fleets, a substantial amount of peak load coverage capability in Texas, so from a peak perspective I don't think we have the situation you're describing, maybe more from an expected generation situation is what you are describing. And we've served load for many, many years we've served the 23,000 megawatt peak in ComEd. We've served almost a 9,000 megawatt peak in PECO for many years with certain base-load generation more in the Midwest and having to add the peaking to it, with a well-rounded portfolio in the east.

We know how to do it. We understand and know how to create a portfolio that will fit our needs in Texas; and quite frankly I think it'll be pretty easy for us to do that once we bring the portfolios together. But I have to say we haven't brought the portfolios together and we'll be taking a deeper dive when we do.

**James L. Dobson**

*Analyst, Wunderlich Securities, Inc.*

Q

That's great. Thanks very much for the clarity and just a detailed question on Texas. How long was the Handley plant out in the early third quarter?

**Kenneth W. Cornew**

*Senior Vice President, Exelon Corp.*

A

The Handley plant was out approximately in seven weeks and the rest of our fleet operating superbly.

**James L. Dobson**

*Analyst, Wunderlich Securities, Inc.*

Q

That's great. And then, John on the Mark I retrofit, have we gotten our head around what those cost might be? I understand from the second quarter we do you feel they are going to be small, but has there be any more granularity on what that might cost?

**John W. Rowe**

*Chairman and Chief Executive Officer, Exelon Corp.*

A

There really isn't yet. Strangely what the Commission is doing on debt hardening, I think will add more cost to the Mark IIs than the than the Mark Is but Joe and Jeff, would you pick up on that question?

**Joe Grimes**

*Senior Vice President, Engineering and Technical Services, Exelon Corporation*

A

Yes. I mean, at this point of time, John, we again don't see any significant costs in 2012 and we actually expect to continue that the cost for compliance for both the Mark Is and Mark IIs will be very manageable. We'll have a better estimate on those compliance costs once we get through the technical review process with the industry and the NRC through next year.

James L. Dobson

*Analyst, Wunderlich Securities, Inc.*

Q

That's great. And then, Matt, just one quick detailed finance question, I remember from the second quarter you have the tax benefit from the transfer of cash to a qualified nuclear trust. And you indicated in the second half of the year you'd have about a \$0.01 benefit. Did that book in the third quarter, is that pushed to the fourth?

Matthew F. Hilzinger

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

A

No, it came through in the third quarter.

James L. Dobson

*Analyst, Wunderlich Securities, Inc.*

Q

It did come through in the third.

Matthew F. Hilzinger

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

A

Yes.

James L. Dobson

*Analyst, Wunderlich Securities, Inc.*

Q

Great. Thanks very much.

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

Jonathan Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey, good morning guys.

John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

A

Hi, Jonathan.

Jonathan Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Quick question on Texas, I noticed in the release you mentioned having had this outage at one of the units early in the quarter, which I guess was before the real spike. So I guess I have two questions on that, would we have seen a noticeably better result if that outage hadn't occurred. And then how in terms of the way you hedged would that outage have impacted the result had it happened say in August?

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

A

Jon, we were aware that the outage was in the middle of the summer. It did happen and it was in July and part of August. We are aware of our situation operationally staying very close with Sonny Garg and his organization. We decided to expand the length in our portfolio in August to keep our position where we wanted it to be. We got to play it back sometime in August, we got another half of Wolf Hollow sometime in August. Those things went in our favor. If the plant was running full time and market prices stayed the same, we would have made more money. But when more plants come online, you know, that impacts the price as well. So it's hard to recreate on that relevant curve but we are very happy with our result. It was executed flawlessly by Walt Kuhn and our south trading team, and the results show.

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

Q

Okay. Thanks, Ken. And then one other thing I had for you; we've seen I guess in the last – since the end of the quarter we've seen those forward heat rates in PJM and related hubs rollover beyond 2012 a little bit, out in that '13, '15 window. What do you attribute that to – is it hedging activity in the market, is it the fact that gas has held up a little better in the out years 2012, any sense of what's causing that?

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

A

Jonathan, my guess is it's more of the hedging activity that's happened since the quarter's turn. September 30th prices as you see in our hedge disclosure reflect higher heat rates than we've seen – a little bit higher than we've seen in the last 20 days, although heat rates have held up very well.

Any time you get cycles of hedging activity, you will see some movement in power prices one way or another and I think that's some it. I would have told you based on September 30th prices, a larger amount of our forward upside from the environmental regulation was in those NI Hub and West Hub price, and in the last 20 days or so, it's shown me that there still is more upside particularly at the NI Hub level. So I think heat rates have moved up substantially to reflect reality and spot prices and the reality of price impact from environmental rules, and you will see that cycle a bit as gas price or power price moves with short-term market activity.

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

Q

Okay. Thanks, Ken. And then if I could just on one other topic on the pension, it looks like the move into fixed income was very timely, and should we think about the mix that you shifted to as being static now, or with that big improvement in the bond portfolio is it possible, we see you rebalance it again?

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

A

Well, I think it's directionally static, Doug Brown, who manages it is here. Do you want to pick up on it Doug?

**Douglas J. Brown***Chief Investment Officer, Exelon*

A

Yes. We view that as a dynamic allocation that we constantly reevaluate. So we are very happy where it is right now, but if rates were to go lower, we could lighten up on the hedge. We are firmly committed to that strategy, we'll always have a hedge, but we constantly evaluate it. So it could move in the future.

John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

A

Lest that sound like too much of a hedge, Doug has been very firm with our risk management committee on our board, that he thinks year in and year out, we ought to be matching our investments more to our exposure than we were before. And we'd have been better off three years ago, four years ago if we'd started Doug's plan earlier. So, while I'm sure he'll change it from time-to-time, the direction of a larger weighting toward debt, I think, is a pretty constant board commitment. Doug, would you agree with that?

Douglas J. Brown

*Chief Investment Officer, Exelon*

A

Yes John, I would agree with that and I think as rates will eventually go up and the funded status will improve, we will actually continue to increase the hedge level and the matching portfolio strategy. [indiscernible] (45:54).

Jonathan Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

So, when you talk about asset allocation and then this – and a liability hedge, is the hedge something different from just increasing the bond weighting or is it basically the same thing?

Douglas J. Brown

*Chief Investment Officer, Exelon*

A

It'll be the same thing. We roughly have about 40% of the assets in what we call the liability hedge portfolio. It's a physical bond portfolio of Treasury and high quality corporates that match the interest rate characteristics of the liability.

Jonathan Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And so it's only a hedge in the sense that it's just a higher percentage weighting than you used to have before?

Douglas J. Brown

*Chief Investment Officer, Exelon*

A

Yeah, much higher. We essentially didn't have really much of a hedge at all previously and we've moved to a rather high level at the moment.

Jonathan Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Thank you.

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



John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

Good morning, Steve.

A

Steven I. Fleishman

*Analyst, Bank of America Merrill Lynch*

Yeah, hi, good morning, John. First a question regarding merger approval in Maryland. Could you maybe give us kind of a summary sense of what you think the main issues are that need to be resolved still with the state of Maryland, like where are kind of the couple critical path issues with them?

Q

John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

Well, I think we did that largely, Steve, on an earlier question, the issue is what does the state as an entity really want as an adequate demonstration of benefits to Maryland. And we put in a package to start with that matched the scale of the FirstEnergy Allegheny package. We knew it would be a little different when you're talking about buying the state's largest utility.

A

And the real issue is trying to guess what the commission wants because you can't talk directly to the commissioners, and to work with the governor and the governor's office as to what they want, and as an earlier question explored, the governor's office appears most interested in more renewables. The commissioners may have some interest in accelerating the timing when additional gas capacity comes online. I think those are the nub issues. We hope we have largely made the city happy with the offer to build a new office building in the city, but this is a multiparty negotiation and it can all change a little before it's done.

Steven I. Fleishman

*Analyst, Bank of America Merrill Lynch*

Okay, I guess just conceptually the issue of wanting more gas generation is more of a general issue that has a lot of broader implications, as I know you know, than just this merger. So, how do you resolve something like that in the context of a merger?

Q

John W. Rowe

*Chairman and Chief Executive Officer, Exelon Corp.*

Well, the problem with the merger is you are at a point when your need to negotiate is at the highest. That's one of the prices you pay for the benefits you get. I don't think anyone thinks the whole issue of how much new generation comes on in the East will be solved in the merger proceeding, but there is a public benefits test here and we are going to see what's most important to people directionally. As you know that and you know this as well as I do, this issue isn't confined to Maryland, we went through it one way in New Jersey and at FERC, it comes up in Illinois on the proposed Tenaska plant: everybody likes markets except when they want something else.

A

Steven I. Fleishman

*Analyst, Bank of America Merrill Lynch*

Okay. One other question totally separate on the EPA rules coming, I guess, soon. Just what's your perspective on how, I mean, obviously a lot of the industry is pushing for more time in some cases, kind of like a blanket extension of time. What's your perspective in how EPA is going to deal with the mix of the more time and the economic worries issue in this – and the reliability issue, I guess that keeps getting brought up in this ruling?

Q

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

A

I think we're going to try to make people prove the reliability point. There is a lot of talk about reliability problems that simply don't exist and we're constantly pushing that they announce their shutdown plans and then let FERC and PJM investigate whether they are any reliability issues. We think there will in fact be very few and we're being very pugnacious about saying if you going to claim a reliability problem, prove it.

EPA has some discretion. We would certainly urge EPA to use its discretion where there are real reliability problems, but not phony ones. And from an Exelon economic point of view, it doesn't trouble us much if people get a little more time where they are actually putting on a new scrubber or some other major rehab. But, we're adamant that nobody should get more time for a plant they're going to shut down anyway.

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

Q

Great. Thanks, John.

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

A

Thanks, Steve.

**Operator:** Your next question comes from the line of Julian Smith with UBS.

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

A

Good morning.

**Julien Dumoulin-Smith***Analyst, UBS Securities LLC*

Q

Good morning. Can you hear me?

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

A

Clearly.

**Julien Dumoulin-Smith***Analyst, UBS Securities LLC*

Q

Excellent. So I wanted to ask, you commented briefly before on CSAPR and seeing some of that flow through. I mean, perhaps being a little bit more explicit about it. How much of an uplift do you expect to see into implementation into year-end given where pricing is today? And then maybe can you comment a little bit more granularly, call it West Hub versus NI Hub on that just to get a start?

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

A

I think I'll let Ken answer that, but I think the short answer is, we think a lot of that effect is already in the market, but, Ken, go ahead.

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

A

We've consistently, in our modeling, seen about a \$1 to \$2 uplift in prices from the Cross-State rule. We think that that is largely in the market, both NI Hub and West Hub. The \$2 is more of a NI Hub number and the \$1 is more of the West Hub number.

**Julien Dumoulin-Smith***Analyst, UBS Securities LLC*

Q

Great. Thank you. With regards to residential retailing and aggregation, there seems to have been quite a few developments of late in Illinois; it seems like there's an accelerating trend. Perhaps if you could somewhat in light of your pending merger on your own activities and perhaps activities of others in the state to that end, and where you anticipate seeing that moving as we look at 2012?

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

A

Well, we believe that with what's happened in power markets, what's happening in more regulated jurisdictions, the opportunities for retail marketing are consistently increasing. Most large customers have switched where they can. That's true in both Illinois and Pennsylvania and in other competitive markets. But we're seeing more switching by small commercial customers, the beginnings of serious switching by residential customers with more in Pennsylvania than in Illinois, but the trend is the same, and more efforts by municipalities to aggregate. And this is one of the reasons why we value the Constellation purchase, because they're further along in developing both the marketing groups and people and the backup IT platform than we are. With that I will turn it over to Ken.

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

A

We've been consistent in our marketing to commercial and industrial customers in Illinois and that business remains a solid, viable business. We focus our attention on industrial and commercial customers in Pennsylvania and have spent most of our time developing those systems and people and capability to market to that segment. We continue to push and move into the Ohio area in the industrial and commercial segment. And as John indicated, once we bring together the Constellation retail element, we will be in the residential market. We have no activity in that market right now.

**Julien Dumoulin-Smith***Analyst, UBS Securities LLC*

Q

Great. And then the last quick question, you've kind of alluded to previously with regards to Maryland, perhaps just commenting a little bit more broadly, would you feel comfortable participating in the RFP as it's proposed currently or any further flavor around the participation in what's been proposed?

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

A

I would like Darryl Bradford to pick up that. My own view is we might participate in the RFP, but be more likely to be a nonconforming bid, but Darryl?

Darryl M. Bradford

Senior Vice President & General Counsel, Exelon Corp.

A

Yes, John. The RFP has been extended out now so that responses aren't due until January. As you may know, the Commission issued an RFP, the Maryland Energy Administration had some questions about the shape of the RFP and whether it should be expanded to include renewables, so it's a matter that we're going to continue to watch and evaluate, but from our viewpoint what that RFP looks like yet hasn't been settled, so I wouldn't want to speculate on what we're going to do with it.

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Q

Quick clarification there actually. There was an allusion to DPL staff or potentially expanding it on that front, is any comments on that one?

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

A

I'm sorry. I didn't understand the precise question.

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Q

It seemed as if there was a comment in the RFP regarding perhaps extending it to the DPL South region of PJM. Is there any comment around that? I mean you commented on the renewables expansion of the RFP.

Kenneth W. Cornew

Senior Vice President, Exelon Corp.

A

I think it just highlights the fact that from our viewpoint at least this is still forming, and what it's going to look like and what it's going to encompass is from our viewpoint not yet settled and so we will look forward to hearing from the state as to how this is shaped, what its requirements are, what other RFPs are going to be there and then we will look at it holistically.

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Q

Great. Thank you all very much for the time.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

A

Thank you.

Stacie Frank

Vice President, Investor Relations, Exelon Corp.

A

Cassandra, I think we're going to turn it back over to John for closing remarks.

**Operator:** Okay.

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

Well, first, thank you everybody. Second if, Chris Crane and Bill Von Hoene, and Darryl Bradford, and Calvin Butler are really successful, by the time we get to our next earnings call we might have closed Constellation. And if that's the case, it would be a very good thing indeed; but if that's the case, this will be last time you'll hear from me on one of these.

So I just want to make some points very crisply about what's going on here. Again and again over the last several years, we have beaten estimates, we have proven that the machine works across the board, that different parts of the company, find the extra at different times. And, yes, it's coincidental just which one performs when with the extra value. But what's not coincidental is we've got a whole lot of hounds hunting and they do it really well and they're not here because they are pretty; they're here because they produce results. And that's true in our nuclear operation, it's true in the two delivery companies, it's true with our rate making people, it's true with Tom Terry's work on taxes, it's true with Joe Dominguez's remarkable work in Ohio with Duke and AEP. Things are working here. And, Chris Crane will be as absolutely dedicated to value as I'm; and this management team will be as dedicated to value without me as it has been with me.

And you know and we know because your forecasts for the next couple of years aren't much different than ours that the next couple of years are going to be tougher on an earnings basis. And you know and we know that there's nobody else with the same upside that we have down the road. And it really is fortunate in my view they we're starting to see glimmers of that upside in the power markets already. Energy just isn't going to be free in those markets indefinitely. So, I really just want to end this by saying you have one hell of a team working for you here and they will continue to deliver.

Thank you very much.

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

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