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Exelon Corp. (EXC)

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CORPORATE PARTICIPANTS

Daniel L. Eggers

Senior Vice President-Investor Relations, Exelon Corp.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Jonathan W. Thayer

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

Joseph Nigro

CEO-Constellation & Executive Vice President, Exelon Corp.

Joseph Dominguez

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

OTHER PARTICIPANTS

Greg Gordon

Analyst, Evercore ISI

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Steve Fleishman

Analyst, Wolfe Research LLC

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Josephine, and I will be your conference operator today. At this time, I would like to welcome everyone to the Exelon Corporation 2017 First Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instruction] Thank you.

I would now like to turn the conference over to Dan Eggers, Senior Vice President of Investor Relations. Please go ahead.

Daniel L. Eggers

Senior Vice President-Investor Relations, Exelon Corp.

Thank you, Josephine. Good morning, everyone, and thank you for joining our first quarter 2017 earnings conference call. Leading the call today are Chris Crane, Exelon's President and Chief Executive Officer, and Jack Thayer, Exelon's Chief Financial Officer. They're joined by other members of Exelon's senior management team, who will be available to answer your questions following our prepared remarks.

We issued our earnings release this morning along with the presentation, both of which can be found in 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 reference 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. We've scheduled 45 minutes for today's call.

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, and thank you all for joining us. We're off to a great start in 2017. In March, we marked our one-year anniversary of the merger between Exelon and Pepco Holdings. Since the close, PHI has successfully executed on merger commitments, achieved synergy savings and made significant progress towards whole integration.

We also continue to work hard on the regulatory front. Since the beginning of the year, PHI closed out the Delmarva Maryland rate case and reached a settlement for our electric and gas rate case in Delaware. We are now down to just Pepco DC cases from our first planned cycle of rate case filings. That said, our regular team has already started the second cycle of rate cases at Pepco Maryland and ACE's plant.

At ExGen, we completed the acquisition of FitzPatrick Power Plant, representing the 25th nuclear reactor where we have ownership stake. We welcome the new employees to the Exelon family. We also announced the Exelon Generation renewables joint venture, which is allowing us to recycle capital at a valuation meaningfully above the value implied for ExGen at our current share price.

The JV allows us to make even faster progress on our debt reduction goals without diminishing our commitment to renewable power. We continue to focus on legal challenges to the Zero Emission Credits, or ZEC, in New York and Illinois. We remain confident that our arguments will prevail.

We'll cover these points in more detail on the call, but I wanted to highlight what we have done while staying focused on the day-to-day operations. As shown on slide five, on a GAAP basis we've earned \$1.07 versus \$0.19 a share last year. And on an operating basis, we earned \$0.65 versus \$0.68 last year, which puts us at top of our \$0.55 to \$0.65 range and above consensus of \$0.62.

Moving to slide six. Our first quarter operational report was strong. Our color block charts highlight operating performance and Customer Satisfaction for the utilities. Legacy Exelon Utilities remain almost entirely first quartile. PECO actually had its best Customer Satisfaction rating ever during the first quarter. BGE experienced their best-ever CAIDI and SAIFI performance of all time.

At PHI, we're encouraged by the progress we are making and our customers are seeing the benefits. For example, by using a common lock-out/tag-out process, a procedure that establishes a zone of protection while restoring equipment, we were able to send over 400 employees and contractors from BGE, ComEd and PECO to support the storm restoration in Delmarva during Winter Storm Stella. As a result, Delmarva customers had their power restored two days sooner. Our thanks to everybody that helped in accomplishing that speedy recovery. The power of Exelon Utilities' platform is a significant benefit to our customers. We continue to improve upon these metrics to meet reliability commitments we have made to provide better service to our customers.

The nuclear team had a great quarter also. They completed three refueling outages and achieved a Capacity Factor of 94%. They also had the fastest refueling outage ever for Calvert Cliffs Nuclear Station 2, running 20 days. In the power business, we realized renewable energy capture rate of nearly 96% and a power dispatch match of over 99%.

Our two new-build CCGTs in Texas have both achieved first buyer and are now selling test power onto the grid. These state-of-the-art plants, which are totaling nearly 2,200 megawatts, are on-budget, on-schedule for full commercial operations in this second quarter. We expect that they will be ready to participate in Texas this summer.

At Constellation, our highly hedged portfolio in 2017 mitigates the impacts of weaker power prices and lower load, given the mild winter weather. Even in this recent low-volatility environment, our C&I business has been able to hold onto margins and keep customer renewables.

On slide seven, we view 2016 as a great success in delivering on our commitments and preserving some of our at-risk nuclear units by securing compensation for their clean energy attributes. For 2017, we're focused on executing on these gains we made last year and, more importantly, affirming the ZEC programs in the court.

In New York, litigation is further along at this point. On March 29, the judge in New York Federal Court heard oral arguments on our motions to dismiss. We made strong arguments at this hearing and believe the law is clearly on our side. We do get asked when we expect a decision, but the judge has not given a specific timeline or deadline to issue her order. If we prevail on the motion to dismiss, we would expect the other side to appeal that decision. If the judge denies our motion to dismiss, we will move forward with the case as planned. As I have said previously, we're confident in the strength of our case.

In Illinois, two groups of plaintiffs have challenged the ZEC in Federal Court and the cases are before one judge. The plaintiffs filed for preliminary injunction on March 31. We intervened in that case on April 10 and we filed motions to dismiss. The judge has held a preliminary injunction motion while he receives a full briefing on the motion to dismiss. He will then determine whether there is a legal basis to go forward. That briefing will be completed by May 15 and the judge is scheduled to inform the parties of his intention on May 22. In the interim, we start recognizing ZEC revenues in New York on April 1.

In Illinois, the utilities have allowed tariffs to begin collecting the ZEC payments on June 1. We don't expect the actual ZEC procurement process in Illinois to conclude until later in the fall. We remain confident that the ZEC programs will be upheld in the courts to the benefits of the state, the communities and these valuable resources.

As we have discussed last year in our Carbon Policy Principles, we see state programs as an essential mechanism until we have a more cohesive federal policy that values clean baseload generation. Energy Secretary Perry's recent directive to look at the importance of preserving baseload generation is early, but encouraging. We appreciate the Secretary's focus to promote needed market reforms to compensate these assets. We will support the DOE's effort as they move forward.

Turning to the upcoming PJM auction. We understand the investment community is paying close attention, particularly after the disappointing MISO capacity auction results. Joe Nigro is available to answer more detailed questions, if you have them, but let me share a few thoughts around the auction. To the positive, we are going to 100% CP for the first time, which will put a higher performance burden on the entire fleet. We still think this should lead to a more responsible bidding, given the higher risk around non-performance.

The CETL numbers, or the import capacity into ComEd and EMAAC LDAs, have tightened this year versus last year. The tightening could flag more constrained market conditions than last year in these zones, which could help in separation. To the negative, PJM lowered its demand forecast again for this auction FERC approved seasonal aggregation that will allow products that otherwise would not clear to participate a 100% CP world.

Finally, we have the risk of more uneconomic generation being built, primarily in Pennsylvania and Ohio. These drivers are important, but we still expect clearing prices to come down to bidding behavior. You have seen us bid our assets in recent auctions to reflect the underlying economic needs of the individual plants, which, in turn, has led to some of our plants not cleared. You should expect us to bid our assets in the same responsible fashion in this next upcoming auction.

Now let me turn the call over to Jack to walk through the numbers.

Jonathan W. Thayer

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

Thank you, Chris, and good morning, everyone. My remarks today will cover our first quarter results, an overview of our current rate cases, an update of our gross margin disclosures and a review of some of the events that occurred this quarter.

Turning to slide eight. We had a strong quarter financially and operationally across the company. For the first quarter, we delivered adjusted non-GAAP operating earnings of \$0.65 per share at the top of our guidance range of \$0.55 to \$0.65 per share. This compares to \$0.68 per share for the first quarter of 2016. Exelon Utilities delivered a combined \$0.47 per share. Versus our plan, the utility results were impacted by unfavorable weather at PECO and PHI, which was more than offset by O&M and timing across all of the utilities.

With 70% of our distribution rate base in decoupled jurisdictions, including ComEd starting in 2017, we experienced less volatility on our utility earnings from record warm weather in January and February than if we did not have these programs. To help put this winter in context, this was the first time in 146 years when there was no snow on the ground in Chicago for both January and February. Looking across PJM, January and February were the warmest on record since data started being collected in 1950.

Generation had a strong quarter relative to plan, earning \$0.18 per share. We had good performance from our nuclear assets, with better Capacity Factors than budgeted, and our Constellation team once again delivered strong results despite weak power prices and low volatility.

Turning to slide nine. The \$0.65 per share in the first quarter of this year was \$0.03 per share lower than the first quarter of 2016. To the positive, we had a full quarter of contribution from PHI relative to only eight days last year, which added \$0.09. The other utilities benefited from rate relief and higher rate base, partly offset at PECO with even milder weather than last year. ExGen was down year-over-year, primarily on the known impacts of lower capacity prices and power price realization, as well as more planned refueling outages.

Turning to slide 10. We're reaffirming our full-year guidance range of \$2.50 to \$2.80 per share. We expect to deliver operating earnings of \$0.45 to \$0.55 in the second quarter compared with \$0.65 last year. Our second quarter results will include contributions from the FitzPatrick Plant and the impacts of the New York ZEC program that started on April 1. The Illinois ZEC legislation will go into effect on June 1, and plant procurement is expected to occur later this fall. Plants receiving contracts would recognize revenues retroactive to the June 1 effective date.

Moving to slide 11. Our utilities continue to execute well, delivering strong earned returns in the quarter. Looking at the trailing 12 month booked ROEs, we saw a nice improvement, even relative to what we showed last quarter. At PHI, we saw all the utilities register gains, with some help coming as revenues from the first cycle of rate cases are starting to flow through to results.

For the legacy Exelon Utilities, we continue to see strong earned ROEs over 10% that lift the consolidated Exelon Utilities platform to nearly 10%, including PHI. We have plenty of work to do at the utilities and with our regulators to keep improving the product we're delivering to our customers, but we're happy with where the overall business is performing.

We're obviously pleased with where our earned ROEs are trending, but I want to remind you that there will be variability in the earned ROEs at our different utilities as we go forward. The timing of rate case implementation, weather comparability and in-service dates will all impact results. We think the ability to earn strong ROEs and the plan that we have in place at PHI to improve their ROEs will be the recipe for our future success.

On slide 12, we have an update on our rate cases. Since our fourth quarter call, we have closed out the Delmarva Maryland case with a revenue increase of \$38 million. We've also reached unanimous settlements in our Delmarva Delaware electric and gas cases for \$31.5 million and \$4.9 million, respectively, and would expect Commission approval during the second quarter.

From our first cycle of planned rate cases, we're now down just to the Pepco DC case, where we expect a Commission decision later in July. We're proud of the hard work from our utilities and regulatory teams. These efforts are helping to get PHI's revenues and earn booked ROEs back on course while we simultaneously improve performance for our customers.

As we've shared with you many times before, we've always viewed the turnaround in PHI earned ROEs as a two rate case cycle process. To that end, we filed our second rate cases at ACE and Pepco Maryland this quarter. Combined with the outstanding cases from the first cycle that I previously mentioned, we are currently asking for \$252 million in revenues, which reflect recovery on multiple years of capital investments that have been made to improve the reliability of the grid across these jurisdictions.

We expect a final ruling on Pepco Maryland and ACE, likely in Q4 2017 and first quarter of 2018, respectively. We plan to file a second cycle of cases in most, if not all, of PHI's jurisdictions in 2017, with all completed by the end of 2018, putting us in a position to earn between 9% and 10% ROEs in 2019. More details on the rate cases and their schedules can be found on slides 29 through 36 in the Appendix.

Slide 13 provides our gross margin update for ExGen. In 2017, total gross margin is flat to our last disclosure. During the quarter, we executed on \$150 million of Power New Business and \$50 million of non-Power New Business. We're highly hedged for the rest of this year and are well balanced on our generation to load matching strategy.

Total gross margin decreased in the first quarter by \$50 million in both 2018 and 2019 due to the impact of price changes on our open portfolio. We ended the quarter approximately 12% to 15% behind our ratable hedging program in 2018 and 8% to 11% behind ratable in 2019 when considering cross-commodity hedges. The majority of our length is concentrated in the Midwest to align to our fundamental view of spot market upside at NiHub, although we have increased our length in other regions as well.

We're comfortable with being more open when we look at market fundamentals. For example, forward regional natural gas prices today are over \$1 per MMBtu higher than they realized last year, yet the forwards for power are only about \$1 per megawatt higher. We do not believe that is a sustainable situation. To that point, I should note that power prices have risen since the start of the second quarter and have reversed about half of the first quarter price declines.

On slide 14, we have highlighted some key recent events. On March 31, 2017 we executed on the creation of the Exelon Generation Renewables JV, which will provide us with \$400 million of pre-tax cash. Including allocated debt, that puts total JV enterprise value at approximately \$1.7 billion. The price implies an EV to EBITDA multiple over 10 times and a \$1 per KW value over \$1,200. The JV consists of 1,296 megawatts of renewable generation capacity, which is about 35% of our renewables output, and has an average contract life of 14 years. The JV structure provides the option to drop down contracted renewable assets from our portfolio in the future. The proceeds from this sale will be used to accelerate our deleveraging strategy.

Also on March 31, we closed on the acquisition of the FitzPatrick Nuclear Station from Entergy, which adds 838 megawatts of nuclear capacity to our portfolio. As you know, the FitzPatrick Plant is part of the New York ZEC program, and we'll receive ZEC payments for the next 12 years, which started on April 1. The plant is now operated by Exelon, and I'm happy to report we had a clean cut over of FitzPatrick on to the Exelon platform. We're excited to have the FitzPatrick employees as part of the Exelon family.

Our Exelon Generation Texas partnership, commonly referred to as EGTP, is a portfolio of 3,476 megawatts of gas generation in Texas. In 2014, we raised \$675 million of non-recourse project finance for the assets, which currently has a balance of approximately \$650 million. With the downturn in ERCOT power markets, these assets have been under pressure, with the debt trading at a discount to face value for some time and the plants struggling to generate adequate cash flows.

Due to the combination of challenged cash flows and our decision not to inject additional equity, we have come to terms with the lenders to pursue an orderly sale of the assets on their behalf. The modest current earnings and all of the debt are still included in our financial outlook. However, we see the ultimate exit from these assets being accretive to our EPS and debt to EBITDA multiples starting in 2018. In light of the process, we're not in a position to expand further on this transaction.

Finally, during the quarter we decided to discontinue the sales process of the Mystic 8 and 9 assets. We were exploring the sale of these assets as a direct result of interest received from potential buyers. During the sales process, we ran into some issues with the fuel supply agreement that needs to be addressed. And as we've said, we would only transact if we could realize a price greater than our [indiscernible] (20:50) value. Our continuing to own these assets does not impact our commitments on our debt to EBITDA target and debt reduction plans that we've already shared with you.

Turning to slide 15. We remain committed to maintaining a strong balance sheet and our investment-grade credit rating. We are forecasting to be at 3.2 times debt to EBITDA at ExGen by the end of 2017 and have a clear path to our long-term target of 3 times debt to EBITDA. On a recourse debt basis, we're already well ahead of our target, and taking into account the sale of EGTP, we would be on target overall. As we said before, we will look to retire HoldCo debt once we have reached 3 times target at ExGen.

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

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thanks, Jack. This brings us back to our value proposition shown on slide 16, which will be familiar. It is unchanged from our last earnings report and we remain committed to these points. We continue to grow the utility rate base at 6.5% annually through 2020 and regulated EPS by 6% to 8% annually through 2020. We continue to use free cash flow generated at ExGen to fund the incremental equity needs at the utilities of \$2.5 billion and pay down approximately \$3 billion of debt over the next four years at ExGen and the holding company.

We are focused on optimizing value for ExGen business by seeking fair compensation for our Carbon Free Generation fleet, closing uneconomic plants, opportunistically selling assets where it makes sense to accelerate our debt reduction plan and maximizing value through our gen to load matching strategy. We continue to focus on sustaining strong investment-grade credit metrics and grow our dividend in a consistent, visible manner.

Thank you for your interest. And we're now ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Greg Gordon with Evercore.

Greg Gordon

Analyst, Evercore ISI

Hello. Good morning.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning, Greg.

A

Greg Gordon

Analyst, Evercore ISI

I noticed that when you gave the update on your cash flow projections for the balance of the year, that it's several hundred million dollars higher. I don't remember exactly the slide number – it's slide 18. It looks like the utilities are the major contributors to that with a modest decline in expected ExGen cash flow. Can you give us a little more color on that?

Q

Jonathan W. Thayer

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

Sure, Greg. It is the utilities and some of it's energy efficiency timing and some of it's just working capital. So we're about I think \$200 million roughly higher than our expectation.

A

Greg Gordon

Analyst, Evercore ISI

Okay. Is that a permanent effect in terms of as I think about rolling the balance sheet forward, or is that more of a timing issue on when you're going to collect cash flows or spend capital?

Q

Jonathan W. Thayer

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

The working capital is more of a timing issue; some of the energy efficiency is permanent.

A

Greg Gordon

Analyst, Evercore ISI

Okay. Can you give us a sense of what the split is there?

Q

Jonathan W. Thayer

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

\$100 million. And it's energy efficiency. Sorry.

A

Greg Gordon

Analyst, Evercore ISI

Okay. Thank you very much. Second question, and maybe it's not something you're able to really engage with me on the call on. But one of the reasons why I think the stock has underperformed is because people are looking – obviously you've had a little bit of softness in the 2018, 2019 curves. You already told us that's bounced a little bit. But if people are looking forward to the 2020 roll coming this fall and looking at the theoretically open position and worried about the capacity market print and thinking, well, 2020 is going to be another down year.

Q

So I don't know if you can comment on how that looks today and also how that dovetails with what you continue to do vis-à-vis debt reduction at ExGen because, while the balance sheet looks like it's in absolutely great shape today, if EBITDA keeps going south, the bar keeps going up every year in terms of what you have to do with your cash flow to keep it at that level of leverage.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A couple thoughts, Greg. One, I think it's probably, given the liquidity in the market, premature to forecast our 2020 ExGen earnings. But one thing to keep in context, on a recourse basis by 2020, we'll have \$4 billion of debt. That is the most pristine balance sheet I think in the sector. So from a strength perspective, with the balance sheet and the ability to deal with the cyclicity of markets, I think we're well positioned.

A

Our fundamental perspective would be that, as liquidity returns to the market, prices are going up across in our hedging approach and the length that we're carrying relative to ratable is demonstrative of that, so I think it's meaningfully premature to be trading on 2020 in 2017.

Greg Gordon

Analyst, Evercore ISI

Fair enough. Thank you, guys.

Q

Operator: Your next question comes from Jonathan Arnold with Deutsche Bank.

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Good morning, guys.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning.

A

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Question on – you mentioned I think that you would be bidding the units in the PJM auction in the same, I think you said, responsible fashion. Can you give us any insight into what you see as different in the PJM auction setup with respect to, say, the Quad which has the ZECs, and Clinton, which obviously cleared at a low price in MISO? Is there anything we should be thinking about as we compare those two situations?

Joseph Nigro

CEO-Constellation & Executive Vice President, Exelon Corp.

A

Good morning. It's Joe Nigro. I'll take that question and answer it. And, as you know, I'll start by saying we have a long-standing practice of really not discussing our bidding strategy around the capacity auctions or where we think it will clear.

I think there is one thing, though, that you have to take into account is the timing of the two auctions. The MISO auction was for June of this year through May of next year. And the PJM auction obviously is much further out on the curve. When you think about the operations of the power plant and the fuel loaded in the core at Clinton, for example, that plant was going to continue to operate during that period.

What I will say about Quad Cities and the bidding is we're going to continue to remain responsible in the way we bid our capacity, reflecting the underlying economics of our plants. And that's consistent with we've done with past auctions. I think the major question mark with this auction continues to be, as Chris mentioned, bidding behavior from the existing generations as well as the discipline associated with new builds.

As it relates to existing facilities, we continue to see economically challenged plants that have cleared previous auctions. And in addition to that, we see the economics of new builds being marginal. In the last auction, we cleared about 27 gigawatts of base capacity, which was about 16% of the total procurement, and it remains to be seen how that 27 gigawatts will participate in this auction. But the big variable, as I mentioned, will continue to be the bidding of all the plants, and we will remain disciplined in that regard with all our facilities.

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thanks, Joe. And then could I also ask on I guess topical issue today, but can you quantify at all or describe your exposure to Westinghouse as a supplier, presumably in the fuel business primarily and are there any concerns you have with regard to the bankruptcy?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

It's something that we follow closely, not only as a supplier, but for the industry. We have reviewed our positions that we have commercially with them. We are not concerned at this time, but we'll continue to watch it closely. Fuel fabrication, we continue to see that as an ongoing entity in the services business. We continue to gain support and see that as an ongoing entity. None of us know how it's going to shake out yet, but we have minimal exposure there.

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Can you give us some sort of percentage of the fleet that they service or supply fuel to perhaps?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

I can get the number for you. We continue to competitively bid our reactor fuel suppliers between multiple suppliers, and we move that around based off of pricing. But we are not held hostage to a single entity on fuel fabrication.

Jonathan Philip Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Right. Thanks, Chris.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Yeah.

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

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Yeah. Hi. Good morning. Just wanted to get your thoughts on this DOE review going on on baseload generation and maybe we also just had this FERC conference, and how these might tie in to the state-by-state ZEC process that has occurred so far with trying to help baseload generation. What could come out of DOE?

Joseph Dominguez

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

A

Yeah. Steve, let me start off and talk a little bit about the Technical Conference over the last couple days. There were three buckets of issues that I think got looked at. One is carbon pricing on the market and what FERC could do to facilitate the states who are interested in doing that. The second bucket would be the MOPR issues, that's PJM's Grid 2020 that New England ISO put out. And the third bucket are energy reforms, and so I think all three of these things are in play as well in connection with the Secretary's Memo.

Let me talk about the three. First, we think there was a constructive discussion around carbon. One of the issues that has limited the ability of states to incorporate aggressive pricing is leakage between the states. And I think there was good discussion around what FERC could do to address that problem. There is, I think you'd agree if you saw the Technical Conference, a growing recognition that putting carbon explicitly in the market is something that would address a lot of these issues, and there's a growing receptivity to that.

On the issue of the MOPRs, that's where I think it most directly addresses the state ZEC programs and the REC programs. The New England proposal doesn't deal with existing baseload generation or existing generation of any kind, frankly. And that's consistent with FERC precedent and so that template wouldn't have any effect on the state programs. The PJM proposal does, however, deal with existing resources, and we have not historically supported that proposal. We recognize PJM has made some important changes, and those were talked about at the Technical Conference.

The issue with the MOPR, from our perspective, is that it is a distraction from some unfinished work that we believe FERC and PJM ought to get to first. Unfortunately, it's become a little bit of a tempest in a teapot in a sense that there's a false narrative out there about the challenges to the IPP sector are driven by ZEC and REC policies, when, in fact, a number of our colleagues in the business saw equity values drop by 70% and 80% long before the word ZEC even came into our dialogue. So we don't think the MOPR is an approach that is going to be workable. It flies in the face of what the states are looking to do. I don't think it will be that effective.

We talked about MISO Zone 4. It's notable that had we bid Clinton in a way where it would not have cleared in that auction or if it had been excluded by MOPR, the price of MISO would have risen from \$1.50 to \$5 a megawatt [ph] bet. (33:58) That's certainly not going to address the down-state issues that Dynegy and others are facing.

At the end of it, we agree with what Chairman [ph] Lafor (34:06) said. And she basically questioned the wisdom of approaching this problem set with more MOPRs for units that are receiving state environmental attribute payments. And I think that's why New York ISO and MISO and others are not going in that direction. So we don't agree with the direction on the MOPR.

But let me talk to you about something important that came up during the session, and I think you'll agree, and that is Andy Ott talked about in Monday's session, and I'm going to loosely quote him saying that we've politely ignored energy market design problems that are undervaluing baseload assets. And he added, we can't afford to ignore those problems anymore. And we completely agree with that. We've talked and talked over the last few years about energy pricing problems in the markets, convex hull, negative pricing, the fact that certain units can't set price during hours, the over commitment of resources driving uplift and a whole host of issues that we've had technical conferences on and white papers on and just haven't gotten started on working on that.

And as a consequence of not addressing those energy market issues, states and our customers are being deprived of assets that add resiliency, they add fuel diversity and they add some environmental benefits. And so what we expect to do at the end of the Technical Conference, you heard Calpine and others echo this, is we want to set a deadline for bringing to conclusion the energy market reforms that we've talked about.

And we think that talking about MOPRs or other things that interfere with states' rights before we fix the energy market problems is a little bit like putting your shoes on before you put your pants on. At the end of the day, it makes you look a little bit silly. And so once we get a reconstituted forum at FERC, we're going to go after these energy price reforms. And we think Secretary Perry's memo opens the door to address these issues.

So we think the last couple of days and Secretary Perry's memo gives us an opening to look at some unfinished business that we have to get after. So, long answer, big subject. But we see a lot of promise in what we saw over the last couple of days and we see a lot of promise in what the DOE is looking at. We have to get this stuff over the finish line.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Great. Thank you.

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

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Good morning, everyone.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning, Julien.

A

Jonathan W. Thayer

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

Good morning.

A

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

So perhaps just to take it back a couple of questions here. Can we talk about the non-nuclear generation strategy? Specifically, I wanted to just follow up a little bit on the renewable sell-down. First, what's the remaining EBITDA that could be eligible to be sold down if you want to qualify it that way?

Q

And then secondly, can you talk about whether or not you would eventually review the Mystic sale? Is this something about restructuring the fuel arrangement and a matter of time, or is this probably something that's going to be on the back burner for a little bit?

And actually, I'll throw out a third question in at the same time. With regards to Texas, I just want to be very clear about this. The new Texas combined cycle assets are a separate and discreet process to the extent to which that you ultimately divest and/or lose control of the ExGen Texas assets, correct?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

That last question is correct. They're totally separate and would be operated that way. They're not part of the divestiture process.

A

On the first two questions, Jack?

Jonathan W. Thayer

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

So, Julien, with the JV structure, we have the opportunity to sell down further assets. The two that come to mind are our AVS, our solar facility, but that would not occur until 2019. We've got to get through the ITC recovery period for that. And the second asset would be our Albany Green Energy facility. It's a wood-burning plant that has a contract with two off-takers down in Georgia. And that's coming online this year, which could facilitate a drop down end of 2017, more likely 2018. And that's all contemplated as part of the overall structure with the JV.

A

With respect to the EBITDA, I'm not going to drill down into that. And with respect to EGTP, given the sales process that we're working with the lenders on, I just don't think it's prudent for us to disclose. And then with respect to Mystic...

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Q

Yeah. Could you revisit Mystic? Just to follow up on that one, or is that something that is off the table for now?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

We're not going to talk a lot of details, but as we see an asset in that portfolio has a potential to create value and recycle capital, we will look at them. We look at it on an annual basis. We have some work to do on that one site, but we'll continue to evaluate it going forward.

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Q

Excellent. And just to understand the JV structure a bit further, on the renewable sale, why not sell down the whole entity over time as part of a wider deleveraging? Why opt for this JV structure?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

We're still committing to a clean portfolio. Being in the renewable business is still part of our strategy. At this point, maintaining the operational control, the maintenance of the facilities is important for us for our investment.

We're getting a fair return from those. But, at this point, we felt that the valuation that we were getting in the market allowed us to recycle the capital. So we're not exiting the renewable business. And we continue to put about \$125 million a year into solar at the C&I level for some of our national customers. And we'll continue to look at that portfolio, how to best manage those investments going forward.

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Q

Excellent. Thank you for the patience.

Operator: Your next question comes from Stephen Byrd with Morgan Stanley.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Hi, Steve.

Jonathan W. Thayer

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

A

Good morning.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

I wanted to follow up on Steve's question on the Department of Energy review. In terms of potential agencies or entities involved, in your mind, is that most likely to be FERC or federal legislation? In other words, I guess I'm struggling to figure out how the Department of Energy itself could provide economic support for baseload, whether that'd be nuclear, coal or gas. What sort of entities would most likely be involved?

And I guess I'm thinking, if the states are providing value for environmental benefits from ZECs and ISOs are providing the reliability benefit through Capacity Performance, what other elements are not being captured or what other tools are potential here?

Joseph Dominguez

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

A

Yeah, Steve, this is Joe Dominguez again. Let me kind of deal with a couple of parts of that. First, we think the DOE has an important role in setting policy. I think the implementation reform of that policy could, in certain instances, be new legislation, it could be things that are done at the NRC in terms of regulatory burdens on nuclear, but it would involve the Commission in that sense. It could involve different changes in rules at FERC. But the DOE is going to have an important voice, in our view, in this policy discussion and will set the tone, even if it can't complete all of the objectives.

There are certain tools that DOE has. Section 202, authority under the Federal Power Act, as an example, allows them to secure resources in the market that are needed. That is a power that has been used sparingly, I think only two times in history. But certainly there's a discussion around the use of it for baseload resources.

With regard to environmental attribute payments, I think we're kind of in a wait and see where the administration goes on carbon. But I think your general sentiment is correct that that's not something we see immediately coming out of the Department. But you asked kind of a more fundamental question, if the states are covering environmental and PJM is covering reliability, what's left? Well, I'll tell you what's left. What's left is resiliency. There's a little bit of a different concept than reliability.

Reliability assumes that pipeline infrastructure and other critical pieces are in place. PJM assumes that and says whether there's some reliability impacts or the reliability expectations could be met.

Resiliency looks a little bit deeper at that and understands the impact of pipeline disruptions on natural gas-fired generation and should we start modeling those sorts of things, is there a value there.

The other piece that is not currently valued in the market is fuel diversity. As we transition to a market that is made up more and more of just natural gas, we're exposing our customers to fuel price volatility in the long run. Those things, because of the short-term nature of the markets, are fully considered. But if you look at Secretary Perry's Memo and I think it's the second bullet point – second and third bullet points of that Memo, address those very issues.


Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

That's very, very helpful to think through. Really appreciate that. And then I wanted to revisit your nuclear operational capabilities and appetite for growing your ownership of nuclear plants. You're acknowledged as a very, very strong nuclear owner and operator. Under what circumstances would you think about increasing ownership of merchant nuclear generation? What criteria would you think about in terms of your appetite for doing so?

Exelon Corp. (EXC)
Q1 2017 Earnings Call

 **Corrected Transcript**
03-May-2017

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Yeah, we have no interest in increasing merchant exposure across any technology. What we would look at is only contracted secure revenue streams going forward. It's pretty clear cut.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

That makes sense. But that could include state-determined payments rather than a classic PTA. Is that fair?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Yes. That's fair.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

Okay. That's all I have. Thank you.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Thanks.

Daniel L. Eggers

Senior Vice President-Investor Relations, Exelon Corp.

A

Time for one more question, operator.

Operator: Okay. Your next question comes from Shar Pourreza with Guggenheim Partners.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Hey, guys. Good morning.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Morning.

Jonathan W. Thayer

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

A

Morning.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Just real question on how you're thinking about the dividend. And you've got a utility that's eventually going to self-fund the dividend and cover the HoldCo interest. What data points are you looking at where you can think

about revisiting the growth rate? Is it clarity around PJM? Is it clarity around ZECs? What's the data points we should be thinking about?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Yes. So, we updated our dividend policy. The board updated the dividend policy about a year ago and gave you the clarity through 2018 on annual 2.5% increase of the dividend. As we said at the time, we want to give you a longer-term view on dividend policy. What we need to do is execute on our rate cases and our efficiency at the utilities in cost and operations. And so 2017 is going to be a big year to continue to have that focus.

And so as we come through into 2018, we can have a dialogue with the board, looking at we're achieving or close to achieving the goal towards 2018, 2019 on where we were going financially and our focus and strategy. So this year is a big year to perform. Next year is a year where we should be working very hard to give you a longer-term view.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Excellent. And then just lastly on retail. Just maybe a little bit of an update. I mean, obviously, there's some businesses that have changed hands. There's some consolidation. There's obviously some trends into this segment turning into a bit of an oligopoly. So, I'm curious on just from a generality standpoint, what you're seeing as far as the margin environment and that would be helpful.

Joseph Nigro

CEO-Constellation & Executive Vice President, Exelon Corp.

A

Yeah. Good morning. It's Joe Nigro. I'll answer the last question first. Our retail margins for C&I origination still remain between the \$2 to \$4 we've talked about, well within that band. As you know, the market hasn't seen volatility, and we continue to monitor that. The consolidation overall helps because there's less participants in the marketplace. As you know, we've acquired companies ourselves. Obviously, other big entities have come into the space that haven't been there historically. That's been a positive.

We have seen some aggressive bidding behavior by some smaller entities in certain sectors, like government contracting and other things. But overall, we continue to monitor this very closely. And we're comfortable with the projections we have and our margins remain in that \$2 to \$4 space.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Got it. Terrific. Thanks, guys.

Jonathan W. Thayer

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

A

Thanks, Shar.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Thank you.

Operator: That is all the time we have for questions. I would now like to turn the call back over to Chris Crane for closing remark.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thank you. We appreciate your time and interest in Exelon. We really are off to a great start in 2017 and look forward to executing on the commitments we've made to you all. So appreciate your time today, and that'll end the call.

Operator: That does conclude today's conference call. You may now disconnect your lines.

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